

IFR

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Good luck with that

The coronavirus pandemic is changing the financial landscape in ways that no one could have imagined, nowhere more so than the government bond markets.

It has been a tumultuous few months for sovereign financing in Europe in particular, with record issuance, unprecedented order books and landmark deals such as Germany's first conventional euro syndication. But the real game-changer came last week: the EU's "Next Generation EU" recovery funding programme.

By seeking to finance up to €750bn of disbursements to member states through the capital markets, the EU will make a colossal and immediate leap from a second-tier issuer of syndicated bonds to the world's biggest.

Throw in an additional €100bn of financing needed for another pandemic-related scheme – the Support to mitigate Unemployment Risks in an Emergency (aka SURE) – and the EU has become overnight the most-prized client for any bond market house.

The headline numbers are so big that it all seems a bit surreal – even if the actual issuance required may in the end fall considerably short of that combined €850bn.

At least in theory, an issuer that has just over €50bn of bonds outstanding is aiming to raise €200bn-plus a year over the next four years – more or less double the annual funding programmes of KfW and the EIB combined.

The potential to transform the capital markets is huge. Take the green bond market. The EU plans to raise about 30% of the €750bn – equivalent to €225bn – in the green format. To put that number in perspective, the EIB has issued US\$33.7bn of green bonds since 2007.

The EU will also give a boost to the European bond market's pool of Triple A assets, which pales in comparison with the Treasury market.

Although it's too early to think that EU bonds will replace Bunds as the euro's benchmark securities, the presence of another liquid, high-quality issuer will be welcomed by investors, especially if it comes with a higher yield than core government paper and that of other European agencies.

For some, EU bonds mark the first step towards debt mutualisation, even though the recovery fund is meant to be temporary.

But while it is true that temporary EU institutions have a habit of becoming permanent, there's still a lot of political wrangling to go through before common funding becomes a matter of fact. The EU's presence, as big as it will be, won't see the demise of independent sovereign issuance.

Investors will also have to weigh up what the EU's plans mean for the ECB's bond buying programmes. There's little doubt that for the EU to successfully raise the amount of debt

it is talking about by the end of 2024, the ECB will have to play a pivotal role.

The EU's funding officials – as experienced as they are – could be forgiven if they gulped at the thought of what they are about to embark on. Little wonder they intend to go on holiday for a few weeks before they get stuck in.

Good luck trying to relax on the beach, guys.

Star vision

Ant Group's plan for a dual listing has been hailed as a ringing endorsement of IPO reforms in Hong Kong and Shanghai. It is also shaping up as a test of their compatibility.

Ant, Alibaba's financial services affiliate, will be the first company to sell shares on the Shanghai Star market and Hong Kong exchange simultaneously via a mooted US\$20bn dual listing expected later this year.

A/H share floats have always been complicated by differences in valuations and regulations between the onshore and offshore markets. The last one was for Agricultural Bank of China back in 2010, when the biggest challenge was selling the stock to offshore investors above book value. Since then, plenty of issuers have tried but failed, forced instead to take a two-step approach that involved going public in Hong Kong first.

The Star market's streamlined approval process gives companies more control over the timing of a share sale, putting a simultaneous offering back on the table. But reforms are also adding further complexity. The Star board's more flexible pricing rules have opened up a massive valuation gap with Hong Kong, and Star board stocks will soon join the Stock Connect link, allowing investors to pick and choose which counter they hold.

SMIC's recent Star listing sent its Hong Kong shares on a roller-coaster ride, more than doubling in value ahead of the Shanghai debut only to crash by over a third immediately afterwards as investors switched into the mainland stock. Ant's concurrent listing will require delicate handling to balance those dynamics.

There is a longer-term issue at stake here, too. A successful Star float for a company of Ant's size and calibre will offer a clear comparison of liquidity and valuations between Hong Kong and Shanghai, and is sure to catch the attention of other Chinese tech giants. That opens the door for a gradual shift to mainland markets as and when capital controls allow it.

Charles Li, chairman of the Hong Kong exchange operator, quickly welcomed Ant's plans as an endorsement of Hong Kong's future. Unfortunately for Hong Kong, though, the future of Chinese IPOs may belong to the Star market.

EU surge to reshape bond markets

People & Markets Up to €850bn of issuance coming – although actual total may be much smaller

BY ROBERT HOGG

The **EUROPEAN UNION** is primed to leap from second-tier issuer to bond market colossus, transforming the landscape as it races through up to €850bn of funding in just over four years.

Last week's agreement to set up the €750bn "Next Generation EU" funding programme – and to fund it through debt issuance – in response to the coronavirus pandemic will see the EU become the world's biggest issuer of syndicated bonds, shaking up the government bond market in the process. Most of that total will come from a Recovery and Resilience Facility of €672.5bn, (including €360bn of loans and €312.5bn of grants).

"It will transform capital markets," said Philip Brown, head of public sector DCM at Citigroup. "We've never seen issuance on this scale before and it is a truism that supply creates demand."

The NGEU fund comes on top of the €100bn "Support to mitigate Unemployment Risks in an Emergency" (SURE) loan programme that will also be financed in the capital markets.

The combined total implies an unprecedented scale of issuance,

though some analysts are sceptical about whether the €850bn figure is realistic and think NGEU may get watered down.

Commerzbank analysts, for example, say the EU Council may eventually compromise on a recovery fund nearer €600bn and, assuming that it does, total issuance across it and the SURE scheme will be more like €530bn, based on only a certain percentage of the recovery fund's loan portion being drawn.

But even by that analysis, the EU's average annual borrowing needs are likely to be well in excess of €100bn in 2021–2024, a figure that dwarfs incumbent market heavyweights such as KfW, which plans to issue €65bn this year.

It would also mean a dramatic increase in the EU's stock of outstanding bonds from the current level of about €52bn.

Financial markets reacted positively to the announcement, with the spread between Italy and Germany 10-year bonds at its tightest since late March.

"The fact that this agreement has been struck is symbolic of a desire amongst the financially stronger nations to support those in a weaker position, and as such the convergence of risk premia that we have seen is natural," said Andrew Jackson, head of fixed income at Federated Hermes.

COMING SOON

The first slug of EU issuance will emanate from the SURE programme, with deals likely from September.

"The SURE programme will be the roadmap for the recovery fund, which is not likely to start issuance until early 2021," said Neal Ganatra, head of the SSA syndicate desk at Deutsche Bank.

The SURE programme will concentrate wholly on fixed-rate issues in euros, with maturities from three to 30 years. With the EU likely to front-load issuance, it is expected to be in the market

every other week from September onwards with benchmark-sized deals.

"The EU said to expect to issue every two weeks, meaning that the average issue size in the SURE period should be around €5bn and the second-half total amount should represent around €50bn," said Patrick Barbe, head of European investment-grade fixed income at Neuberger Berman.

GOING GREEN

About 30% of the NGEU is earmarked for climate protection. Issuing about €225bn as green bonds would make the EU the biggest issuer in that market globally (see separate story).

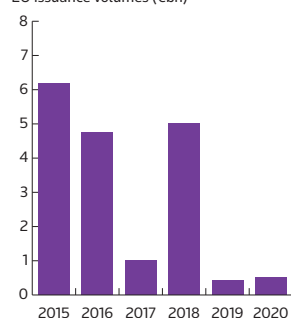
With its green aims and other social objectives in mind, the EU is expected to predominantly target longer-dated tenors, although a syndicate banker said that short-term funding instruments such as bills or commercial paper would be an obvious choice for lightening the issuance load.

"Short-term financing is quite easy to put in place and you've seen very strong amounts being done, which relieves some pressure on the bond market," he said.

Issuance in currencies other than euros is very likely, bankers

CALM BEFORE THE STORM

EU issuance volumes (€bn)



Source: IFR

EU prepares for life as star of the show

People & Markets Banks ready themselves as issuer moves from sideshow to main attraction

BY ROBERT HOGG

The **EUROPEAN UNION**'s need to fund swathes of its €750bn "Next Generation EU" recovery plan and €100bn SURE programme in the bond market over the next four-and-a-half years has thrust its funding team to centre stage, as the issuer moves from understudy to belle of the ball in the capital markets.

The EU is not a new issuer, having built up its curve at a sedate pace over the course of more than two decades.

But it only has about €52bn in outstanding debt instruments – an amount that in theory could grow by more than 16 times over the next few years as it fulfils its role to provide financial support to its member states in the wake of the coronavirus pandemic.

The initial plan is to issue

solely in the euro market with benchmark-sized deals in tenors from three to 30 years for its Support to mitigate Unemployment Risks in an Emergency (SURE) loan programme. Fundraising for that will begin in September.

It will then issue for the NGEU fund most likely from next year.

"The funding team has many years of experience of programmes and benchmarks," said Neal

Ganatra, head of sovereign, supranational and agency syndicate desk at Deutsche Bank.

But the team's workload will go through a sea change as its borrowing needs will far outstrip the likes of KfW and the European Investment Bank.

"It will be a big change for them because they are going from issuing €1.5bn–€2bn per year to €150bn–€200bn," said a syndicate banker, assuming the size of the

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said, though that will require the EU to put in place swap lines and ISDA agreements with banks.

"It's a historical moment for Europe, so I can't see European banks dragging their feet to approve it," said the syndicate banker, adding that it could nonetheless take months before any bonds could be issued in another currency.

The EU will be building out an existing curve as an established issuer for over two decades.

"The existing curve is not super-liquid, but by the time the recovery fund comes along they will probably already have €30bn to €40bn of SURE bonds in the market with four to five large benchmarks," said the syndicate banker.

Other reference points will be core government and agency curves. After historically trading close to the EIB, the EU is now around 10bp–15bp back.

SCARCITY VALUE

For investors, the hope is that the bonds will offer some relative value from an issuer that has Triple A ratings from Moody's, Fitch, DBRS and Scope, and AA from S&P.

"The good thing is that they are an excellent credit and there is a lack of the highest quality fixed-income paper in euros. So there's a scarcity premium," said Hans van Zwol, senior

portfolio manager LDI and rates at NN Investment Partners.

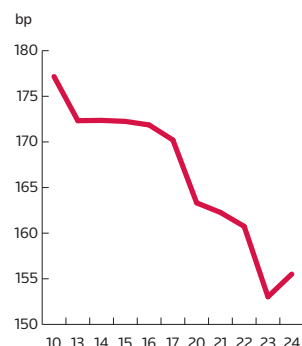
"Given the amount they are seeking to raise, it will remove some of the scarcity premium that investors have to pay for Triple A and we should get a new issue premium as well, though probably only a few basis points."

Demand for EU deals is expected to be big, especially as foreign official institutions could prefer the EU to buying Bunds, said Barbe.

Even so, despite Bunds trading at deeply negative yields and questions about the liquidity of the market, few think the EU will displace it as the region's benchmark.

The Bund market is around €1.5trn based on the market value of the FTSE Russell World Government Bond Index, "so although the new debt will be a

NARROWING THE GAP
BTP-BUND 10YR SPREAD JULY 2020



Source: Refinitiv

sizeable alternative, at approximately 50% of the size of the Bund market, it is unlikely to take over its benchmark status for the moment", said Sandra Holdsworth, head of rates at Kames Capital.

"It will, however, increase the amount of Triple A rated bonds available to investors, substantially eating into demand for other Triple A markets."

WHATEVER IT TAKES

Analysts also expect the ECB to play a pivotal part in absorbing the EU's issuance wave through secondary market purchases.

Barclays analysts said that this week could see the ECB expand its Pandemic Emergency Purchase Programme by €500bn, which would be enough to absorb the bulk of the total recovery fund financing.

Some investors, though, say the ECB needs to be mindful of its remit.

"It shouldn't be forgotten that one of the aims of the ECB is to reduce fragmentation of markets in the eurozone, so we would not expect ECB purchases to be made at the expense of purchases in the higher-yielding markets of the currency area," said Holdsworth.

TAKING A HIT

That is a reminder that the EU's funding plans will have an impact for all government-related

borrowers in the region and adjustments will have to be made.

An agency such as ESM, which is fundraising for a €240bn pandemic response programme of its own, may be affected as it vies for the same investors, while sovereign issuance could also take a hit.

"All these recovery packages imply less sovereign bond issuance, especially on the long maturities. For next year, we estimate a reduction of €25bn minimum of the annual issuance programme for Italy and Spain," said Barbe.

Then there are some who think this could be seen as the first step towards common funding. "It certainly paves the way, in that it establishes a mechanism and a precedent – like QE," said Jackson.

However, the recovery fund is meant to be a temporary support born out of extraordinary circumstances.

"I don't think we will see this as a new European reference but as a large one-off, unless the EU goes further and makes it a permanent tool, with countries giving up 20%–30% of their funding needs to have them done by the EU to maintain this tool," said the syndicate banker.

Additional reporting by Alex Chambers, David Cheetham, Sudip Roy ■

NGEU is confirmed at €750bn and all the loans get drawn.

"It will be a bit of a learning curve, but they are very experienced funding officers and are building resources. I think it will be the same team running everything."

The syndicate banker said that if the EU were to start to issue under several programmes, for example in different currencies, then it might develop specialist product groups. The EIB, for example, has funding officials dedicated to different currencies. But that doesn't

seem to be an immediate priority.

"I've not heard of anything on changes in the team or a view to split them," said the syndicate banker about the EU. "For the next nine months it's going to be euro fixed-rate benchmarks so they don't need to think about changes yet."

SUPER-IMPORTANT

As for the banks, they are gearing up for a new world where the EU is going to be dealing out rafts of large mandates and attractive fees. "They are about to become

super-important as an issuer," said a DCM banker.

The SURE programme, for example, is expected to see the EU in the market every other week from September onwards with €5bn sized deals on average.

However, banks are unlikely to hire more staff, especially given how Covid-19 has changed the outlook for the global economy.

Instead, bankers said they are likely to reallocate existing resources, if needed, with senior members of the origination and syndicate desks more involved in the coverage and analysis.

As for the EU team, it seems that the most important priority is getting a bit of rest and recuperation before the hard work starts.

"We actually had a call with the EU today about other things and they said to us 'first vacation and then we will check it'. So for three weeks we won't see anything and then I think from mid-August we will find out more," said a second syndicate banker.

The EU did not respond to questions sent by the time IFR was going to press.

Additional reporting by David Cheetham and Sudip Roy ■

EU recovery plan to prompt seismic shift for sustainable finance

■ **People & Markets** €225bn-plus of green bond issuance on the way as Europe gets serious about climate change

BY TESSA WALSH

Confirmation that around a third – or €225bn – of the **EUROPEAN UNION**'s up to €750bn "Next Generation EU" recovery plan will be funded via green bonds, combined with other money earmarked for climate-related financing via the EU's Green Deal, is set to transform sustainable finance.

"About €225bn of new green bonds is seismic. In the SSA space it would be a more than doubling of the amount [of green bonds] outstanding," said Frazer Ross, head of investment-grade debt syndicate for EMEA at Deutsche Bank.

That €225bn is only part of the money that the EU is mobilising via its Green Deal as it seeks to meet the ambitious target of being

the first climate-neutral continent by 2050. More funding will come from the €1.074trn 2021–27 EU budget that was agreed last week.

"This is a massive step towards the greening of the European economy and moving to a carbon-neutral goal in 2050," said David Zahn, head of European fixed income at Franklin Templeton.

"This is very supportive for the green bond market and we would expect more issuance and a broadening of issuance to support this focus."

WINNERS AND LOSERS?

Banks are already seeking to identify companies that will benefit from that extra funding before beating a path to their door for mandates, and are designing products to help

investors make money from the far-reaching changes.

Societe Generale has created a Green Deal basket of equities consisting of 43 European companies likely to profit from the EU's push to achieve its ambitious target. It also offers insight into companies that will become leading green debt issuers.

SG has identified four areas as market movers.

"The Green Deal is looking at the whole ecosystem. It's not just renewable energy; it's also about sustainable mobility, renovation and the circular economy and recycling," said Roland Kaloyan, head of European equity strategy at SG.

Renewable energy is a clear beneficiary of the deal and is expected to nearly double to 32%

of the EU's energy mix by 2030 from 17% currently.

Companies linked to electrification focusing on storage and smart transmission grids to connect different energy sources are included in the basket. Semiconductor manufacturers and companies involved in electric vehicles and charging infrastructure are preferred to car companies that are still dependent on gasoline engines.

Rail also features prominently as the EU gets ready for the "European year of rail" in 2021 and gas and industrial gases companies that generate hydrogen have also been included, along with biofuel firms.

The requirement for building renovation has been underestimated so far as 75% of existing buildings are energy

Debate continues on green bank sub debt

■ **People & Markets** Ringfencing green assets and liabilities remains difficult

BY TESSA WALSH

Key questions remain around how subordinated green bonds sold by banks would work in a crisis, as regulators could force the bonds to absorb losses and take writedowns on some non-green assets, according to Fitch.

The issue raises difficult questions around green bank capital, specifically on banks' inability to ring-fence green assets and liabilities and highlights the time-lag between rapidly-developing sustainable finance and the slower pace of regulation, the ratings agency said.

"The issue here is that the regulatory framework hasn't yet quite caught up with innovations in the market," said Monsur Hussain, a senior director in financial institutions at Fitch.

Spain's BBVA sold a €1bn green hybrid bond offering in early July that qualifies as Additional Tier 1 regulatory capital and Dutch bank de Volksbank issued €500m of subordinated Tier 2 green bonds a week later.

Both deals can be used to absorb losses through writedowns or debt-for-equity swaps if regulators think that a bank is failing or likely to fail. Proceeds will be used to fund eligible green assets to support the banks' sustainability goals, but bond covenants do not give precise details.

"There are no covenants linked to how proceeds are used, and investors have limited legal room to force the banks to ensure that those proceeds are used in the manner described," Hussain said.

"Given that this is a capital instrument, if it were to have a trigger or call linked to ESG or sustainability, that would most likely prejudice the ability of the instrument as regulatory Tier 1 capital."

BBVA's sustainable development bond framework supports its alignment with Paris Agreement climate targets and the UN's Sustainable Development Goals, and de Volksbank is aiming for a 45% climate-neutral balance sheet by the end of 2020, increasing to 100% by 2030 via its green bond framework.

"We were a bit sceptical about BBVA. The whole point of AT1 is capital for a bank, not a specific use of proceeds. 'Is it actually going to have an impact?' was our question," an ESG investor said.

NO PRECEDENT

It could take a real-life case study to resolve the question, however, as there is no regulatory or market precedent beyond standard creditor hierarchies for how use of proceeds would be tracked if green bonds had to absorb losses.

"Tracking the usage of green bond proceeds is already difficult given the fungible nature of cash and the loose labelling that many banks use to reference sustainable and green projects," the Fitch report said.

Progress with the EU Green Bond Standard and the EU taxonomy, which defines sustainable activities, is helping but standards are still unclear on technical considerations for more complex green instruments other than senior unsecured bonds.

inefficient and 80% will still be in use in 2050, while only 1% are renovated per year, according to SG, and companies focusing on insulation and energy efficiency have been added.

Waste management and recycling that aids the drive to create a circular economy, and recycled packaging such as paper, paperboard and glass, have also been included to pre-empt the EU's looming ban on single-use plastics.

As well as companies, SG's analysis also identified the sectors that are set to benefit and found strong representation among Nordic companies.

"Industrial goods and services is the biggest sector, followed by utilities, which are only 26% of the basket. The third sector is construction materials due to the focus on renovation," Kaloyan said.

POSITIVE PERFORMANCE

The basket has already outperformed relative to clean energy or climate change ETFs and indices and has risen 73% over

the last two years, outperforming 3% growth in the STOXX 600.

This has accelerated since the Green Deal was announced in December.

The basket is also expected to grow by 33% in the next three years, compared with 10% growth for the STOXX 600, according to IBES consensus estimates, but that potential growth comes at a price.

The basket's average price to earnings ratio is 24, compared with 18 for the market, which implies a 35%–40% premium.

Funding from the Green Deal is likely to give European companies an international first-mover advantage and a chance to develop experience and expertise to export to other regions in the global fight against climate change.

"If you think about the second wave and what could push this even more, it could come from a Green Deal outside Europe. Most of these companies are global players and will be able to export their knowledge and expertise to other countries," Kaloyan said.

Additional reporting by Sudip Roy ■

Policymakers are considering a preferential capital regime for green financing, but it is currently unclear whether a new class of "green regulatory capital" will be created.

The confusion highlights the current clash between banks' sustainability objectives and prudential capital regulation, and the need for a consistent global taxonomy and classification, the report said.

No mechanisms currently exist in bank liquidation or resolution procedures to ring-fence assets that could allow green assets to be carved out and protected, other than those pledged as collateral, the report said.

"Investors looking at opportunities to invest in green capital instruments may start to require a more carved-out approach, whereby green loans and investments funded by green capital instruments can be clearly segregated when it comes to assessing loss-absorption," said Janine Dow, a

senior director in sustainable finance at Fitch.

"Otherwise, it makes it a bit confusing to be green on the way in and potentially non-green on the way out."

Ring-fencing green assets and liabilities would firm up the green credentials of subordinated instruments and could significantly increase green asset expansion as banks increasingly use them as a leverage instrument to maximise green lending, rather than a straightforward funding tool.

"On a use-of-proceeds or going-concern basis if there's clear green funding for the assets on a loss-attribution basis, those green losses would then be absorbed by the green capital issuance. We're not there yet," Hussain said.

However, ring-fencing would also weaken banks' capital resilience because it limits the ability of stronger parts of a banking group to support weaker parts. ■

Goldman reaches 1MDB settlement

■ **People & Markets** Former employees still face charges

BY THOMAS BLOTT

GOLDMAN SACHS has reached a US\$3.9bn settlement with the Malaysian government over its involvement in the 1MDB scandal, the US investment bank and Malaysia's Ministry of Finance said in separate statements on Friday.

The settlement comprises a cash payment of US\$2.5bn from Goldman and a guarantee by the bank that Malaysia recovers at least US\$1.4bn in assets linked to the 1MDB bonds that have been seized by governments around the world. Goldman will also assist Malaysia in appointing an asset recovery specialist to recover other related assets lying outside Malaysia.

"We are also glad to be able to resolve this outside the court system, which would have cost a lot of time, money and resources. With this settlement, we will have the return of the monies expedited, and not held up by lengthy and costly court battles and legal process," Malaysia finance minister Tengku Zafrul Aziz said.

"We must be self-critical to ensure that we only improve from the experience"

Goldman said in its statement that Malaysia had agreed to withdraw all criminal charges against the firm as well as its current and former executives (although it noted that this did not include its former employees Tim Leissner and Roger Ng).

The South-East Asian nation had charged 17 current and former directors of Goldman units for allegedly misleading investors over bond sales totalling US\$6.5bn that the US bank helped raise for 1MDB.

Malaysia also charged three Goldman units, based in London, Hong Kong and Singapore, of misleading investors by making untrue statements when arranging the three bond offerings.

Leissner, a former Goldman partner responsible for managing the relationship with 1MDB when it issued the bonds in 2012 and 2013, pleaded guilty to charges in the US of conspiring to launder money and conspiring to violate the Foreign Corrupt Practices Act.

Meanwhile, Ng pleaded not guilty in the US to conspiring to launder money and bribe government officials in Malaysia and Abu Dhabi through bond offerings that Goldman handled.

Goldman has consistently claimed that it was misled by Leissner and that certain members of the former Malaysian government and 1MDB lied to it about how proceeds from the bond sales would be used. The US Department of Justice has said around US\$4.5bn was misappropriated from 1MDB.

"Today's settlement is an important step towards putting the 1MDB matter behind us and will help enable the Malaysian government to move forward with additional recovery efforts and to execute on its economic priorities," Goldman said.

"There are important lessons to be learned from this situation, and we must be self-critical to ensure that we only improve from the experience."

Goldman also said it expects to "materially increase" its provisions for litigation and regulatory proceedings. In January, the bank set aside an additional US\$1.1bn for a potential settlement with Malaysia over the 1MDB scandal. ■

Ant Group joins Star listing frenzy: HK/Shanghai IPO to raise US\$20bn

■ **Equities** Landmark simultaneous A/H float follows reforms to listing rules

BY FIONA LAU, KAREN TIAN

China's Nasdaq-style Star board has won its biggest endorsement to-date with the long-awaited dual listing of **ANT GROUP**, Alibaba's financial services affiliate.

Ant, the parent company of China's largest mobile payments business Alipay, said last Monday it planned to float on the Stock Exchange of Hong Kong and Shanghai's Star board, without specifying a timeline or fundraising target.

According to people close to the deal, Ant plans to raise about US\$20bn, split equally between Hong Kong and Shanghai, at a valuation of around US\$200bn. The company may file listing applications in both markets as early as August as it is keen to complete the listings by the end of the year, said two of the people. A spokesperson for Ant declined to comment.

Ant's listing is likely to be the biggest so far on the one-year-old Star market, which has quickly become an attractive listing venue for Chinese technology companies.

"The innovative measures implemented by SSE Star market and the SEHK have opened the doors for global investors to access leading-edge technology companies from the most dynamic economies in the world and for those companies to have greater access to the capital markets," said Eric Jing, Ant's executive chairman. "We are thrilled to have the opportunity to play a part in this development."

RAPID DEVELOPMENT

Unlike other Chinese unicorns, Ant never considered a US listing, given the regulatory hurdles around foreign ownership of its consumer payments business and the vast

amount of sensitive data it holds on Chinese citizens.

There has long been talk of an Ant public listing, but the transformation of the Hong Kong and Shanghai markets in the past few years has convinced the company that now is the right time.

"A few years ago, who could imagine Hong Kong would have its own tech index? Hong Kong is truly building itself as a hub for tech listings"

Hong Kong introduced listing reforms in 2018 to attract Chinese tech companies. Smartphone maker Xiaomi, online services group Meituan Dianping and Alibaba have all sold shares in the city since.

Escalating US-China tensions have prompted more US-listed tech companies to seek a secondary listing in Hong Kong this year, including JD.com and NetEase.

In response, index compiler Hang Seng is set to introduce the Hang Seng Tech Index on July 27, which will track the performance of the 30 largest tech companies in Hong Kong.

"A few years ago, who could imagine Hong Kong would have its own tech index?" said a fund manager. "Now with Ant coming and more secondary listings and biotech IPOs, Hong Kong is truly building itself as a hub for tech listings."

The Shanghai Star board, which celebrated its first anniversary last Wednesday, can already claim to have hosted the world's biggest listing so far this year – the Rmb45.3bn (US\$6.4bn) float of Chinese chipmaker Semiconductor

Bill Ackman-led US\$4bn acquisition vehicle hunts big game

■ **Equities** Pershing Square Tontine touts investor-friendly structure

BY STEPHEN LACEY

Love him or hate him, Bill Ackman delivered a powerful endorsement of the SPAC business model when he not only raised US\$4bn through **PERSHING SQUARE TONTINE** but broke with convention every step of the way.

Tontine gained 6.5% to US\$21.30 on its NYSE debut on Wednesday, impressive given the amount of capital raised.

After just two days of marketing publicly, *Citigroup*, *Jefferies* and *UBS* placed 200m

units at US\$20 to raise US\$4bn, an increase from the US\$3bn at launch. Total firepower is a massive US\$7bn as Ackman's Pershing Square hedge fund is committed to chip in US\$1bn when the SPAC completes its first acquisition, with the option to add another US\$2bn.

The banks were oversubscribed at launch on Monday morning and were multiple-times covered at pricing, allowing Ackman and the underwriters to scrub through allocations, according to bankers involved in the offering.

"We saw a lot of investors inflate orders in an effort to get an allocation," said one banker. "There were a lot of accounts that got blanked. There was lot of momentum throughout the bookbuild."

HUNTING FOR ELEPHANTS

Tontine is true elephant-hunting material, with the SPAC seeking to take minority positions in private companies valued at US\$10bn or more. For perspective, Ackman's Pershing Square had US\$10.3bn under management on June 30 and the largest SPAC previously was

Michael Klein's US\$1.1bn Churchill Capital III, which has just secured an US\$11bn acquisition of Multiplan.

Ackman highlighted his aspirations for Tontine on CNBC after pricing by name-checking the likes of Airbnb as potential targets. Bloomberg was another company discussed with investors on the IPO roadshow, according to bankers.

"We created the most investor-friendly SPAC in the world," said Ackman on CNBC. "And we had an enormous reception that gave us the ability to do very large scale."

Manufacturing International – and Ant’s IPO will set another landmark.

“The listing of Ant will enrich and improve the types of companies listed on the Star board. It is a giant company which investors are familiar with. It will surely be included in the SSE Composite Index and Star 50 Index, which will help attract more capital to the Shanghai markets,” said Bruce Pang, chief economist at China Renaissance Securities.

The Star 50 index closed at 1,497 points on its debut last Wednesday against a base level of 1,000 points as of December 31.

As of last Wednesday, 140 companies have raised Rmb210bn from Star market listings, and another 267 have applied to list.

BANK SELECTION

Ant is working with CICC, Citigroup, JP Morgan and Morgan Stanley on the Hong Kong leg of the IPO, while CICC and other Chinese banks are expected to lead the A-share sale, said people familiar with the situation.

The deal will translate into big fees and league table credit

for the banks, but they also need to commit capital and risk losing other mandates, too.

Sponsors of Star IPOs over Rmb5bn are required to buy 2% of the offering and hold the shares for two years, up to a cap of Rmb1bn.

CICC last week more than trebled the number of shares on offer in its own proposed Shanghai IPO, raising the fundraising target to Rmb15.6bn based on the investment bank’s net asset value per share of Rmb10.80 in 2019.

A CICC spokesman said the original plan “can no longer fully meet the company’s

business development needs for capital”. Rivals believe the leading Chinese investment bank is building a war chest to support more sizeable Star IPOs.

CICC has sponsored more Star listings than any other firm, and is sitting on handsome paper profits. Its US\$65m investment in SMIC’s deal, for example, is now worth US\$186m.

JP Morgan, meanwhile, is no longer working on the US IPO of Chinese online wealth management company LUFAX after it was picked to work on the Ant IPO. Morgan Stanley is also expected to have a more passive role on the Lufax deal.

Bank of America, Goldman Sachs, HSBC and UBS are now leading the Lufax float, which is expected to raise at least US\$2bn.

Ant raised US\$10bn in a 2018 funding round for a valuation of about US\$150bn, backed by a number of global sovereign wealth funds and private equity firms such as GIC, Temasek, Warburg Pincus, Carlyle Group and Sequoia Capital.

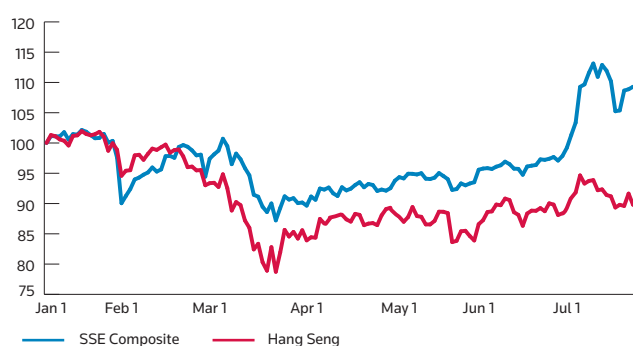
Alibaba spun off Alipay in 2011 to create Ant Financial, renamed Ant Group in May 2020. Ant provides digital financial services including payments, insurance and wealth management, and served 1.3 billion customers in the 12 months to March 31 2020, according to Alibaba’s latest annual report.

Ant said the listings will help the company to further digitalise its services in China, drive domestic demand and develop its markets worldwide.

As of March 31, Alibaba founder Jack Ma controlled approximately 50% of Ant Group through equity investment partnerships, Alibaba Group held 33% and other shareholders the remainder. ■

STAR PERFORMER

SHANGHAI STOCKS ARE OUTPERFORMING HONG KONG



Source: Refinitiv

“We’re taking no compensation, no management fees, incentive fees, promotes [and] we’re not buying cheap stock. There’s literally no compensation to the sponsor.”

“Those firms brought a lot of institutional accounts that weren’t covered by the leads. We don’t have universal coverage of every institution. I was impressed”

The structure is definitely different from the norm, but there is compensation.

Whereas the typical US SPAC gives the sponsor a 20% stake of an IPO upfront for a negligible sum, Tontine’s sponsors will get a 5.95% stake of a post-

combination business on a fully diluted basis, including any equity rolled over by existing owners of an acquired business.

In the case of Churchill Capital III’s recent agreement to merge with healthcare insurer Multiplan in a US\$11bn transaction, Klein saw his 20% promote whittled to just 4%, after factoring in US\$3.7bn of PIPE capital raised and US\$4.2bn of equity that Hellman & Friedman and other existing shareholders rolled over.

INNOVATION

There is true innovation throughout Tontine (a term that refers to a group insurance scheme that dates to the 17th century whereby benefits accrue to the last surviving member), and Ackman was instrumental in marketing and structuring, according to the bankers.

The deal features a bifurcated warrant structure to incentivise investors to vote in favour of acquisition.

The 200m units sold on the IPO initially comprise one share and one-ninth of a warrant. Investors who vote in favour of an acquisition receive another two-ninths of a warrant (adding up to the now standard SPAC offer of one-third) plus any warrants sacrificed by investors who vote against an acquisition and elect to cash out.

The public warrants are exercisable at US\$23 following an acquisition.

Ackman mandated seven minority-owned firms in more junior underwriting roles to help build out demand, and paid them disproportionate economics.

CastleOak Securities (black-owned), Loop Capital Markets

(black-owned), Ramirez & Co (minority owned), Siebert Williams Shank (minority and women), Academy Securities (veterans), CL King & Associates (women) and Roberts and Ryan (veterans) received a 20% split of underwriting fees, far higher than the 3%–5% typical split, according to bankers.

“[Those firms] brought a lot of institutional accounts that weren’t covered by the leads,” said a second banker. “We don’t have universal coverage of every institution. I was impressed.”

Most importantly, Tontine’s focus on US\$10bn-plus private companies would allow a target to immediately go public, without the hassles and costs of a traditional IPO.

That is the classic argument for SPACs, but no one else can write as big a cheque as Tontine. ■

Orders flow for Manila Water

■ **Emerging Markets** Offshore bond debut comes months after Duterte suggests revoking concession

BY DANIEL STANTON, JIHYE HWANG

Investors took the plunge on an unrated debut US dollar bond issue from **MANILA WATER**, even though the president of the Philippines recently threatened to nationalise the company.

Manila Water on Thursday priced a US\$500m 10-year non-call five 4.375% bond offering at 99.002 to yield 4.5%, inside initial guidance of 4.75%, and beating the initial size target of US\$300m–\$400m.

The senior unsecured Reg S issue, led by bookrunners *BPI Capital, Citigroup, Credit Suisse, HSBC, Mizuho Securities* and *UBS*, is also the first offshore sustainability bond issue from the Philippines under both ICMA and Asean standards.

Manila Water recently set up a sustainable financing framework with a second opinion from *DNV*, and will use the proceeds to help finance water and waste-water infrastructure projects in eastern Metro Manila and to refinance debt.

“The issuance of this sustainability bond is fully aligned

with our commitment to create shared value towards achieving the targets of the UN Sustainable Development Goals, especially SDG 6, which focuses on clean water and sanitation,” said Jose Rene Gregory D Almendras, president of Manila Water, in a statement.

Manila Water, which is majority owned by the Ayala Group, also operates in Indonesia, Thailand and Vietnam, but has lately been under fire in its home market.

From March 2019, Metro Manila suffered months of water shortages as reservoirs ran low, and the two water concession operators, Manila Water and Maynilad Water Services, drew the wrath of President Rodrigo Duterte.

In August 2019, the Philippine Supreme Court ruled that both operators had violated the country’s Clean Water Act for failing to build more sewers and fined them Ps921m (US\$18.7m) each – a verdict Manila Water is contesting.

Then in November, the Permanent Court of Arbitration in Singapore found in favour of

Manila Water and ordered the Philippine government to pay Ps7.39bn for blocking the company from raising its prices in 2015 according to the terms in its concession. Several government officials reacted angrily to the result and called for the 1997 concession agreement to be torn up and redrawn.

The original 25-year concession is due to be extended for a further 15 years in 2022, but the friction with the government means it is not certain this will be granted on the same terms. In April, Manila Water began talks with the government, which brought in the Asian Development Bank as a consultant.

Duterte in January warned Manila Water and Maynilad, which is controlled by Manuel Pangilinan’s Metro Pacific Investments, that he would throw their executives in jail if they refused to accept a revised contract offered by the government. He has also suggested nationalising the water industry.

In February, Prime Metroline Holdings, a company controlled

by Enrique Razon Jr, chairman of International Container Terminal Services, agreed to take a stake in Manila Water through a Ps10.7bn share purchase that has yet to be completed.

Razon, who is perceived to be in good standing with Duterte, agreed to take a 25% economic stake, as a result of which Ayala’s shareholding will drop to 38.6% from 51.4%. However, Ayala also agreed to transfer preferred shares to give Prime Metroline 51% of the voting rights and reduce Ayala’s voting rights to 31.6%.

Duterte’s relationship with Manila’s water providers has thawed since then. In May, he apologised to the Ayala group and Manuel Pangilinan after they helped to provide testing and treatment services and supplies to help fight the coronavirus.

“The credit is obviously complex and we probably could have given investors more time,” said a bookrunner, who said that some analysts had not finished studying the credit between the

Australia tests long bond appetite

■ **Bonds** AOFM extends curve amid soaring deficits and green legal challenges

BY JOHN WEAVERS

Australia is gearing up for a rare offering of 30-year bonds amid growing scrutiny of its green credentials.

After a blowout response to recent shorter dated deals, the **AUSTRALIAN OFFICE OF FINANCIAL MANAGEMENT** will launch a curve-extending syndicated June 21 2051 Treasury bond issue this week, via joint leads *ANZ, CBA, Deutsche Bank, JP Morgan* and *UBS*.

The long bond, which is expected to prove popular with yield-seeking investors, comes as the country’s exposure to climate change and the Australian government’s green policies are again in focus.

Last week, a retail investor, 23-year-old student Kathleen

O’Donnell, launched a class action suit against the government alleging that it failed to include climate change or global warming in its list of material risks for Treasury bonds – in contrast to interest rate movements and default risks, which are included.

O’Donnell is seeking a declaration that the government breached its disclosure requirements and an injunction blocking it from selling more exchange-traded government bonds until it complies.

The federal government’s questionable green credentials have regularly come under fire as it continues to defend the coal industry – the country’s largest export earner and source of most of Australia’s electricity.

That attitude could count against it with capital markets investors in competition with more socially responsible alternatives.

These alternatives include the 13 countries that have issued more than US\$60bn in sovereign green bonds since 2016, as well as New South Wales, Victoria and Queensland, which have all sold green bonds in recent years.

Responsible investments under management are soaring in Australia, fanned by last year’s catastrophic bushfires. Some offshore buyers have also shunned Australian assets, including Sweden’s Riksbank, which last year boycotted bonds from Australia’s two major coal-producing states, Western Australia and Queensland.

TRIPLE A DEMAND

So far, there has been no obvious impact on overall demand for Australian or state government bonds, and bankers expect the 2051 benchmark to sell well.

The AOFM secured a colossal combined order book approaching A\$130bn (US\$93bn) for its three recent issues, the A\$13bn sale of November 2024s on April 15, the record A\$19bn sale of December 2030s on May 13, and the A\$17bn sale of November 2025s on July 14.

The new bond offering has a smaller natural buyside base than these shorter-dated issues, which benefit from huge bank balance sheet demand and funds that prefer the higher liquidity of bonds included in the three, five or 10-year futures contract baskets.

announcement of the mandate on Wednesday and launch on Thursday.

Despite this, Manila Water did not offer much of a premium over similar unrated bonds. Ayala's AC Energy had US dollar bonds due 2024 quoted at a yield of 3.09%, port operator ICTSI's June 2030s were at 4.45%, and Philippine conglomerate JG Summit's 2030 bonds were seen at 4.09%. One of the leads put the new issue concession at 25bp.

PUT PROTECTION

The bond provides some protection for investors in case Manila Water loses its concession or changes ownership, which bankers said was critical to the deal.

Investors can put their bonds at 101% of face value under a regulatory redemption trigger if the concession agreement for the Metro Manila area is terminated or redrawn on materially worse terms for the company before the end of 2022 – by which time Duterte will have completed his six-year term as president.

Nomura's credit sales and trading desk wrote that this clause did not offer much protection to

bondholders, since it is the issuer who will decide whether the regulatory redemption clause has been triggered.

Holders can also put the bonds at 101 if Ayala and Prime Metroline between them cease to control at least 50% of the stock.

Investors, including real-money accounts, seemed to be comfortable with the credit, with final orders exceeding US\$1bn from 85 accounts, from a peak of US\$1.96bn. Asian investors took 79% and Europe 21%, as the sustainable angle attracted ESG-focused money managers there.

Insurance companies, which often require ratings, bought 14% of the issue, with fund managers booking 57%, private banks 19%, and banks 10%.

"The long tenor and the ESG angle definitely helped attract insurers," said a second banker on the deal.

The deal also drew some demand from accounts in the Philippines, where the issuer has a domestic rating of Aaa from PhilRatings.

The bonds were seen about a point lower in secondary trading in a weak market on Friday. ■

"Nevertheless, the 2051s should see good support from domestic asset managers and superannuation funds seeking duration and yield, while offshore real money will appreciate the pick-up over sovereign alternatives," said a syndication manager on the trade.

He pointed to the 65% offshore allocation for the opening of the 3.0% March 21 2047 Treasury bond line in October 2016, which was dominated by UK, US and European accounts.

The Australian curve's relative steepness at the long end is another supportive factor, he said.

Australia continues to benefit from its status as one of only 10 countries to be Triple A rated by all three major ratings agencies, despite its ballooning fiscal deficits.

Thursday's fiscal update forecast revealed a deficit of A\$85.8bn in fiscal-year 2019/20, versus an

earlier surplus forecast, with the annual shortfall predicted to surge to A\$184.5bn in 2020/21.

On July 3, the AOFM reported that issuance of Treasury bonds totalled A\$128.2bn in the financial year ended June 30 2020 and said it will update guidance for this fiscal year when the Treasury announces its 2020/21 budget in October.

S&P, which lowered Australia's outlook to negative in April, said its rating can withstand the large widening in the deficit and expects the fiscal balance to improve during the next few years. However, it also warned that "risks to our rating remain tilted toward the downside".

Moody's said: "We expect Australia's Aaa rating to remain resilient. In particular, we expect the process of fiscal repair will begin in 2021 as the economy recovers and financing costs remain low." ■

Supply surge leaves UK RMBS pipeline dry

■ **Structured Finance** Specialist lenders dominate market reboot

BY CHRIS MOORE

The UK securitisation shutdown that started in March appears well and truly over with £3.75bn of paper placed across 11 deals since the market reopened in June. Five of those new issues were sold last week alone.

But a second supply lull could now last for the rest of the year unless UK banks and building societies return: all but two of the new issues came from specialist lenders. And most of those non-banks with deals to sell have now sold them.

"I'm not sure there's much more behind those [deals]," said one investor.

"Where do the next ones come from given there has been no origination from March to June?" he asked.

Securitisation typically lags behind the wider credit markets when responding to external events. But there is a second type of lag too, with those lenders who operate originate-to-securitise models needing time to build up pools of assets before they come to market with a new deal.

Lockdown has slashed new lending and remortgaging volumes, especially for specialist lenders that originate riskier mortgages that require a visit in person from a valuer.

Those firms that have sold new issues in recent weeks are not likely to return to market for several months.

Any second supply drought would be quickly broken if the big high street lenders with RMBS programmes such as Nationwide, Lloyds and Santander returned. But the introduction of the Bank of England's TFSME scheme in response to Covid-19 has given them a cheaper funding source.

However **COVENTRY BUILDING SOCIETY** last week chose to bring a debut issue from a new UK master trust, taking advantage

of the absence of any competing supply from the bank and building society sector. Its deal, Economic Master Issuer 2020-1, sold £350m Triple A paper at a very respectable level (relative to pre-Covid pricing) of Sonia plus 47bp.

That is very tight in the circumstances but with Sonia at around 6bp it works out more than five times more expensive than the 10bp where banks and builders can fund using TFSME, and those with more established RMBS programmes appear to be in no hurry to reopen them.

Nevertheless market participants last week were positively surprised at the strong reception for EMI 2020-1 and also a non-conforming RMBS from Kensington Mortgages, which were the first two publicly syndicated deals since March. Previous issuance in recent weeks had all been partly or fully pre-placed.

"After what we have all been through and worked through, a fully syndicated deal is a watershed moment – we are back to a functioning European securitisation market," said Matt Cooke, managing director in Lloyds' Securitised Products Group. Lloyds was joint arranger with HSBC for EMI 2020-1.

"Even a month ago we had concerns about where the public market was tracking for the rest of the year, but it has come back a lot quicker than we thought, which will improve the confidence and tone for a lot of issuers," Cooke said.

Securitisation this year had started very strongly before Covid-19 struck.

"Going into lockdown the pipeline was the deepest we've seen it for six or seven years, and a lot of projects had to be put on hold," Cooke said.

"Some were executed and retained but there are still other mandates sitting there that could easily be restarted." ■

In London and New York, bankers trickle back to office life

■ **People & Markets** About 15% of bankers in offices in London, but Hong Kong halts return

BY STEVE SLATER, THOMAS BLOTT

Traders and investment bankers are slowly returning to major offices in London and New York, but stunning results last quarter have shown banks do not need to hurry the process.

About 15% of staff are in offices in London at major corporate and investment banks, and the steady trickle returning in recent weeks is likely to continue through the summer, industry sources said.

GOLDMAN SACHS has 700–800 staff on an average day in its main London office, which had about 6,000 staff before lockdown. The bank said 15% of its UK staff were back in the office, but they were not all going in every day.

It is a similar level for **JP MORGAN** in London. It had 15% of London staff in offices last week

and plans to increase that to 21% from August 3 – or 2,500 of its 12,000 people in the city. It expects up to 50% of staff to be in the office during the autumn.

What staff find is very different to the offices they left in March: temperature checks on arrival and mandatory masks in communal areas; automated elevators shuttle four staff at a time to a designated floor; only alternate desks are used; and there is click-and-collect for food at the canteen.

Other major banks, including **CITIGROUP** and **HSBC**, are estimated to have about 15% of CIB staff back in London offices, and levels are similar or slightly lower in New York, sources said.

BARCLAYS is expected to have about 700 staff return to offices around the world this month and next, although with about 70,000 staff working remotely,

the majority – especially in consumer banking – will not return until September at the earliest. That month is expected to be significant for ramping up or pausing the return to office.

COLLABORATE AND INNOVATE

Within CIB divisions, more traders are back than peers in advisory or underwriting, due to the nature of the work.

“We are getting back up and running. Here in London, we have about 25% of our trading floor employees back in the office,” said Jim Esposito, global co-head of Goldman’s markets division.

“We are running a socially distanced trading floor, which does have its unique challenges,” he said on a podcast on July 17.

Banks are in no rush after record or near-record results for trading and investment banking

divisions for the April to June quarter. Esposito said one of the bank’s best quarters ever, when 98% of traders were working from home, showed it can operate remotely.

But he said Goldman would get people back in the office for two key reasons – to help train new graduates and younger staff, and because people collaborate better in the office and that improves innovation.

More staff are back in offices in Asia and Continental Europe, where lockdown restrictions eased earlier than the UK and the US. Goldman estimated 35% of its staff in Continental Europe were back in the office.

HONG KONG PROBLEM

But Hong Kong shows the unpredictable nature of the situation. Banks there have

Levfin bankers suffer blow over eBay unit

■ **Loans** Potential financing lost as Adevinta wins bid, with lenders missing out on €43.75m fee

BY CLAIRE RUCKIN, ALASDAIR REILLY

Leveraged bankers were disappointed to lose out on a €2.2bn underwritten financing after Norway’s **ADEVINTA** won the battle for **EBAY**’s classified ads business, eliminating the main buyout loan anticipated by the market for the third quarter.

Adevinta will buy the bulk of eBay Classifieds Group for US\$9.2bn, backed with a US\$3bn secured bridge loan provided by Citigroup, Barclays and DNB.

eBay said in February it was in discussions with several candidates regarding the potential disposal. A large number of private equity firms had made it through to the final round of bidding in an auction process, with a large number of

leveraged bankers having prepared debt packages to back those bids.

For European leveraged finance bankers, the loss of the deal to a corporate bidder will be keenly felt due to a lack of new issuance amid the global health crisis.

“The outcome of eBay is exceptionally disappointing,” a syndicate head said. “It is a loss for bankers on the deal, but it is also disappointing for the market, which has demonstrated it can absorb big deals and at the moment it feels like the market has stalled.”

Most deals syndicated since the leveraged market reopened in June were pre-existing underwrites stuck on banks’ balance sheets.

While the pipeline of event-driven deals is building, eBay’s classified ads business was the most advanced sale process, with auctions for the likes of **UNILEVER**’s tea business and **PHILIPS**’ domestic appliances division only set to begin after the summer.

“So far there has been a steady flow of clearing out the closet of old deals but there is no fresh slate of deals ready to come to market after summer. The concern is that the pipeline is looking pretty threadbare. eBay was a process that was concluding and would have bought more imminent fresh supply,” the syndicate head said.

SHOW ME THE MONEY

The underwrite was set to generate fees of around

€43.75m, based on an average 1.75% underwriting fee.

The loss of that fee will be a big disappointment to leveraged bankers, many of whom are severely under budget due to a lack of deal flow and losses experienced on several recently syndicated deals.

With the departure of eBay from September’s pipeline, new issuance is set to be sparse during the third quarter, with bankers mainly pitching lower paid opportunistic deals, such as refinancings and add-ons for acquisitions, on a best efforts basis.

Partners Group’s acquisition of a majority stake in Portuguese agrochemical company **ROVENSA** from Bridgepoint, announced earlier this month, is expected

ditched plans to bring most of their workforce back into the office after a spike in the number of Covid-19 cases. Most banks have asked all non-critical staff to work remotely again.

Goldman had given the green light for all Hong Kong staff to return to the office at the end of June but has now told people to work from home. UBS, Barclays and HSBC have all cut the number of staff in offices, and **CREDIT SUISSE** has told units to give priority to traders and critical on-site functions.

Many banks had been following the lead of what was happening in Asia, so problems there could slow the return globally.

The US is further behind Europe and the situation there is patchy. CIB units have thousands of staff scattered across the US beyond New York, including big hubs in Utah, Miami, North Carolina, Texas and California.

Citigroup this month paused returning staff to offices in 13

states, including Texas and Florida, after a jump in cases.

YOUR CHOICE

Staff are generally being given the choice over whether and when they return.

There has been a greater take-up among junior bankers, which sources said was because they are happier returning; less experienced employees often wanted colleagues around them; and some found it hard to work at home.

That included people who share apartments with others, sometimes from rival banks or other firms.

Two senior bankers said this had raised concerns about compliance risks. The UK's Financial Conduct Authority in May warned banks to keep a close eye on such risks, telling them that "working-from-home arrangements may raise new, additional risks around identifying and handling inside information".

SHORT-TERM PAIN

While remote working could save banks vast sums in the long

term, it has cost them in the short term.

During the lockdown, banks have slashed travel, entertainment and marketing costs, but that has been more than offset by buying personal protective equipment, extra hardware for bankers to set up at home, covering childcare costs and other healthcare checks.

BANK OF AMERICA estimated the net cost was US\$400m last quarter.

"You've got all the PPE-related expenses. You've got all the tech expenses, moving people, moving to work from home. You've got some offsets in some travel and other employee expenses in terms of meetings, that all nets down this quarter to US\$400m," BofA finance chief Paul Donofrio told analysts.

But there is little doubt the success of remote working has seen banks lick their lips at the chance to cut real-estate costs.

"We do expect probably over time that we will have, on a regular basis, between 20% and

up to one-third of the people regularly working from home," **UBS** CEO Sergio Ermotti told analysts last week. "And that creates a lot of flexibility in the way we manage our real estate footprint."

Executives said HQs were unlikely to become dramatically smaller, and most savings would come from getting rid of disaster recovery sites and other boltholes that were rarely used. The back-up is now employees' homes.

More flexible working conditions could have another big benefit too – and support the push for greater workforce diversity.

"There are going to be some things from this period that we borrow and take through to a very different operating and business model in the future," said Goldman's Esposito.

"I definitely think we will be able to be more flexible with our workforce. If that working model is more flexible, that should ultimately help champion and foster a more diverse workforce," he said. ■

to have an underwritten debt financing, but at around €500m is unlikely to soak up the excess liquidity in the market or provide significant bank fees.

"Most banks are severely under budget at the moment," the syndicate head said. "Even if Q4 picks up, with Q2 and Q3 quiet it is hard to see how most institutions will be able to make more than half their budget. Banks are pitching opportunistic deals, reviewing every deal in the portfolio to work out what is appropriate and at all possible."

MORE BAD NEWS

In a further blow to the market, some new buyouts will seek to keep existing debt packages in place in a bid to avoid unattractive terms and reduce costs.

In an unusual move, KKR is seeking a change of control waiver for its approximate US\$1bn acquisition of Dutch vacation parks firm **ROOMPOT**.

Elsewhere, KKR is also looking to buy CVC-owned French private hospitals operator **ELSAN**. In June 2019, CVC secured portability on ELSAN's €1.6bn debt that enabled it to remain in place in the event of a sale within two years, meaning no new financing would be necessary to back a sale.

"If a buyout firm likes the terms and is okay with the leverage, asking a syndicate to stay in place doesn't cost as much, so it makes

sense if they can do it. It is however cheating the banks, as they don't get the fees," a second syndicate head said.

BRIDGE LOAN

eBay will receive US\$2.5bn in cash and around 540m Adevinata shares, representing a 44% stake in Adevinata. Majority owned Nordic media group **SCHIBSTED** will reduce its stake in Adevinata to around 33% from 59%.

In addition to the US\$3bn bridge loan, Adevinata has received a commitment for the full refinancing of its existing €400m revolving credit facility.

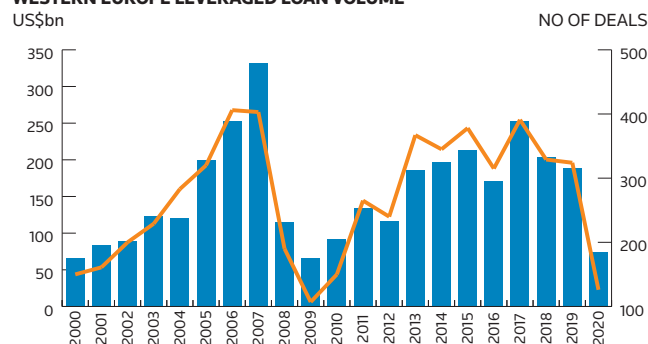
The combined company is expected to delever quickly through a combination of strong Ebitda growth and high cash conversion.

As part of the acquisition, Schibsted will acquire eBay Classifieds Group's Danish assets for US\$330m, reducing the cash consideration from Adevinata to around US\$2.17bn.

Schibsted is backing its acquisition with a bridge loan of up three years from a group of its core banks. It has also secured pre-consent for a temporary waiver of its financial covenant on its existing financing as the acquisition will increase its gearing.

Schibsted aims to repay the bridge loan mainly through the future sale of Adevinata shares. ■

WESTERN EUROPE LEVERAGED LOAN VOLUME



Source: Refinitiv LPC

Cellnex hits redial with €4bn rights issue return

■ **Equities** Spanish telecoms infrastructure company is preparing another tower shopping spree

BY OWEN WILD

Having completed the two biggest rights issues of 2019 to fund acquisitions, **CELLNEX TELECOM** is back for another €4bn from the largest European rights issue in two years and what looks likely to be the biggest ECM deal in Europe this year.

Considering the previous €2.5bn rights issue from the Spanish telecoms infrastructure outfit attracted €100bn of demand with 99.53% of rights exercised, and Cellnex's stock is up over 50% this year, leads are not sweating on their underwriting risk, but the deal is slightly more challenging than the previous capital increases.

One change is the Covid-19 pandemic, which means companies are coming to market as soon as they are ready – even, as with this deal, during the normally quiet summer break.

This rights issue represents a very similar capital increase to both of last year's (26% versus 29% on both previous occasions) but the TERP discount is wider at 25% instead of 20%. That's still pretty tight pricing, reflecting a positive use of proceeds, but is a change nonetheless.

The other difference is shareholder support. Last year, major shareholder ConneCT followed its rights in full, twice. But last month ConneCT was

broken up, with the Benetton family's Edizione, Abu Dhabi Investment Authority and GIC taking direct holdings in Cellnex.

STANDING ASIDE

Shareholders, directors and management have committed to 18.8% of the deal, including ADIA, GIC, CPPIB and Permian Investment Partners. But Edizione is not backing the deal. A banker involved said shortly after the deal was announced that Edizione's focus is on its main asset Atlantia but that he was confident of demand to fill any gap left by the 16.5% shareholder.

With news of the rights issue driving Cellnex shares up more than 8% to close at €60.78, Edizione sold all of its 63.4m rights to *Goldman Sachs*.

Rather than wait until this week and sell rights or shares once the stock is trading ex-rights, the deal was dealt with early to avoid any overhang. That meant Goldman borrowing and selling 13.2m cum rights shares.

The shares were sold at €57, a 6.2% discount to the €60.78 close on Thursday, for proceeds of €752.8m.

The US bank will exercise 50m rights to subscribe for 13.2m shares, with the balance of the rights provided to owners of the borrowed stock.

As a result, Edizione's holding will be diluted to around 13%

from 16.5% following the rights issue.

A second banker said that there was good interest in the liquidity event, with the top five long-only accounts taking half of the deal.

PANDEMIC-PROOF

Demand is almost assured considering telecoms infrastructure is seen as pandemic-proof and, crucially, share price performance keeps rewarding the company's backers. Each of the last three rights issues have represented very similar capital increases and at similar VWAP discounts, yet proceeds sequentially are €1.2bn, €2.5bn and €4bn.

Every equity deal (including two convertible bonds) has met with strong demand and delivered handsome profits for buyers, with shares more than double the €28.85 pricing of October's rights issue.

As a result Cellnex has been able to squeeze down fees slightly from 170bp base and 50bp incentive to a total of 200bp this time – roughly 150bp plus 50bp.

Despite the hefty fundraising size there is no guidance on what Cellnex will buy next. "The aim of the rights issue is in order to feed several opportunities identified in Cellnex's pipeline," said a company spokesman.

"It would not necessarily be a sole deal but a combination of

deals, which does not exclude potential 'transformational deals' that with one shot could add as much as 15,000 towers to the portfolio."

The first banker said bolt-on acquisitions in its existing eight markets are expected to come from a pipeline of €11bn of opportunities.

The company is locked up for 90 days, with a carve-out at 45 days for M&A issuance.

CHAPEAU!

Another change is in the syndicate, where *BNP Paribas* has been promoted to joint global coordinator alongside *Goldman Sachs*, *JP Morgan* and *Morgan Stanley*. *BNPP* worked on all Cellnex's ECM deals last year, with leading roles on both equity-linked trades.

Morgan Stanley has slightly higher underwriting at 18.5%, with the other JGCs at 16.5%.

Bookrunners are unsurprisingly numerous considering the lending also needed to support acquisitive growth, with *CaixaBank* and *Santander* at 6% underwriting each; *Banca IMI*, *Banco Sabadell*, *Deutsche Bank* and *HSBC* with 4%; *Mediobanca*, *Societe Generale* and *UniCredit* at 3%; and *BBVA* 1%, replacing *Citigroup* since the last rights issue.

Subscription begins on July 25 for the €4bn rights issue, which comprises 101.38m new shares on a 5-for-19 basis at €39.45 and runs until August 8. ■

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People & Markets



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FRONT STORY RESULTS

Equities blip holds back UBS

UBS lags US rivals, but decent European Q2 results expected

A weaker-than-expected performance in equities held back investment banking revenues at UBS in the second quarter, as the Swiss bank underperformed US rivals and suffered a 9% decline in the unit's revenues to US\$974m.

Kicking off a busy few weeks of earnings reports from European banks, UBS chief executive Sergio Ermotti blamed the adverse equities outcome on structured products.

The big five US banks reported an aggregate 27% rise in equities trading revenue, but they have limited exposure to structured products and focus more on flow derivatives. Cash trading and prime finance remained strong within equities at UBS.

UBS's foreign exchange, rates and credit trading had a spectacular quarter, however, with a 118% surge in April-June revenues to US\$847m. That even outpaced the US banks, which reported an average 95% jump in fixed income, currencies and commodities revenues.

That raises hope that other traditionally strong fixed income houses, especially Barclays and Deutsche Bank, which report on Wednesday, will benefit from good market conditions in the second quarter. Volatile markets and record debt issuance contributed to the buoyant FICC trading.

UBS is gaining market share thanks to the deployment of technology, allowing it to make higher margins from execution-only platforms without risking as much capital to produce revenues, according to chief financial officer Kirt Gardner.

"We believe we gained market share in electronic, trading and FX and US cash equities," Gardner said.

FIG LESS BUSY

UBS also underperformed US rivals on the primary side, with a 25% increase in capital markets income to US\$432m. US banks reported

an average 84% rise in equity capital markets and 57% increase in debt capital markets revenues.

UBS is stronger in financial institutions, which had less need of capital than corporates during the period. UBS also put some of its comparative weakness down to Europe being less busy than the US. Advisory was particularly weak, seeing a 65% slump in revenues to US\$93m.

A focus on Europe could also hurt BNP Paribas, which reports on Friday. Barclays has a notable US DCM business that should have prospered. Deutsche and Credit Suisse are more focused on leveraged finance, which was tougher for US banks in Q2.

European investment banks are forecast to see revenues rise 46% on average in Q2, according to Eoin Mullany, analyst at Berenberg. That would be a stellar performance, but still lag the 67% rise reported by the big US investment banks.

Jernej Omahen, analyst at Goldman Sachs, was less optimistic, predicting only a 20% year-on-year rise for European banks.

That is largely because of the predicted equities drag on French banks in particular, which also have significant structured products units.

BUYBACKS BACK?

UBS kept a strict control on operating expenses in its investment bank, with a 1% increase to US\$1.66bn. That helped pre-tax profits at the unit rise 43% to US\$612m on revenues up 9% to US\$2.27bn.

At group level UBS took a further US\$272m of net credit losses, including US\$78m in the investment bank. Some of the provisions booked in the first quarter against energy and real estate credits were written back as those markets recovered in the second quarter.

UBS built its capital in the quarter by US\$1.5bn to lift its common equity Tier 1 ratio to 13.3% by the end of June, raising hopes of buybacks and dividends being restarted.

UBS said it might try to resume buybacks by the end of the year and make them at the same ratio as US banks. It suspended its final dividend for 2019 after regulatory pressure.

"We don't rule out the possibility for some share buybacks in the fourth quarter," said Ermotti. "But as we all know, nowadays, a few months are like an eternity. We are going to be in a better position to give you more details in October."

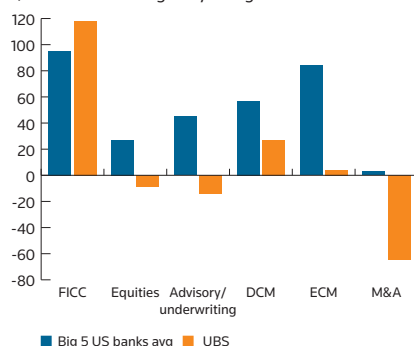
Andrew Coombs, analyst at Citigroup, said the dividend might be halved, but buybacks increased to US\$2.4bn annually.

"This would move UBS more into line with Credit Suisse and US peers, providing greater flexibility and potentially adding more shareholder value if the stock still trades below book," Coombs said.

Christopher Spink

UBS: LAGS US RIVALS - EXCEPT IN FX/RATES/CREDIT

Q2 revenue % change vs year ago



Source: Bank results, IFR estimates; UBS FICC is FX, rates and credit

“We don’t rule out the possibility for some share buybacks in the fourth quarter”

UBS CEO SERGIO ERMOTTI, P13

Boutiques depend on restructuring as M&A dives

EVERCORE is facing the likelihood that the market for M&A will not rebound this year.

The investment bank’s revenues last quarter fell 5% from a year earlier to US\$507m, and operating income fell 32% to US\$86m as compensation expenses rose sharply.

Advisory fees fell 24% to US\$336.5m for the quarter to the end of June, underperforming the bulge-bracket banks. The big five US investment banks reported an aggregate 3% year-on-year rise in advisory revenues, despite the weak environment for merger and acquisition deals.

The saving grace for independent banks such as Evercore was that restructuring revenues provided a buffer as the

coronavirus pandemic forced a number of distressed companies to seek advice.

Several of the key conditions necessary for a healthy M&A market were absent in most sectors and remain elusive today, said Evercore co-chairman John Weinberg.

Announced global M&A volumes were down more than 50% compared with last year’s second quarter, and the number of announced transactions declined 29%, Weinberg said.

But restructuring continues to be a real revenue source “and we’re very optimistic that will continue,” he said.

Rival **GREENHILL**’s quarterly revenues fell 15% to US\$47.8m due to the M&A slowdown.

The investment bank reported a loss of 79 cents a share in the quarter as compensation

expenses ate profits. The bank also abandoned its investment banking efforts in Brazil.

As bad as the quarter was, it would have been worse without a major build-out in restructuring.

“Our dedicated restructuring team is now multiple times bigger than it was previously, and our capacity is further expanded by the involvement of numerous industry sector and M&A-focused bankers,” Greenhill chief executive Scott Bok told analysts.

“Our restructuring-related revenue for this year will likewise be multiple times greater than it was last year,” Bok said.

COMPENSATION AND COMPETITION

Coming into the year, independent banks had big plans to step up hiring, targeting

Debt doyen Buchheit backs Argentina over CACs dispute

Sovereigns should resist calls to get rid of their bonds’ aggregated collective action clauses, which have proved controversial during **ARGENTINA**’s restructuring talks, according to leading sovereign debt lawyer Lee Buchheit. Ditching them could increase their future borrowing costs by raising litigation risks.

“Such a retrograde movement would, in our opinion, inflict significant damage and cost on the market for emerging market sovereign bonds,” wrote Buchheit in a paper with Duke University professor Mitu Gulati. Buchheit advised Argentina in 2016 when at law firm Cleary Gottlieb.

In the current stand-off between Argentina and its creditors, some of the country’s bondholders initially demanded that only earlier iterations of collective action clauses, used in the country’s 2005

and 2010 exchange offers, should be put in any new instruments coming out of the exchange.

This was prompted by Argentina’s proposal that it could effectively choose which bonds to include in any new offer, should its initial exchange fail to get sufficient support under its aggregated collective action clause. This discretion only applies to bonds issued in 2016 and afterwards.

“They were trying to game the system to bring in or pull out different investors depending on how the votes went,” said Mike Conelius, portfolio manager of T Rowe Price’s Emerging Markets Bond Strategy, which holds some of the instruments.

“That is why on the Argentine side many bondholders were looking to go back to the 2005 indenture because it was stronger. Argentina showed their hand – they have

not been a good actor in how these negotiations have gone.”

Last week, three creditor groups said they now merely wished to amend the 2016 CACs, without precisely specifying how (see Emerging Markets). That could be along the lines of **ECUADOR**’s current restructuring, allowing creditors to change their minds and withdraw initial supportive votes before any offer reopening.

Gulati and Buchheit, who also advised Greece in 2012 on its €200bn restructuring that imposed a retroactive aggregated CAC across all its domestic bonds, said the latest version of CACs had been an important tool to try to ensure restructurings were not hampered by hold-out bondholders.

“The willingness of the hold-outs from Argentina’s last restructuring to deploy a pari passu weapon on their quondam fellow bondholders illustrates that hold-outs pose a

Who’s moving where...

LAZARD

LAZARD has hired David Higley as a managing director in its interactive entertainment and digital media investment banking group, based in Los Angeles. Higley joined from Bond Lane Partners, where he was a managing partner after helping it form.

From 2000 to 2007 Higley was global head of digital media at UBS. Before that he was an attorney at Thelen Marrin Johnson & Bridges.



Ather Williams will join **WELLS FARGO** in October as head of strategy, digital and innovation. Williams will report to CEO Charlie Scharf and lead corporate strategic planning; define and manage the digital platform; and manage innovation priorities

and opportunities. Williams will join from Bank of America, where he worked for nine years, most recently as head of business banking. He was previously head of global transaction services. Williams previously spent eight years at JP Morgan.

bulge-bracket shops. But those plans are sputtering as the global pandemic dries up bread and butter M&A transactions.

And instead of easily offering lush compensation packages, boutiques are seeing compensation ratios spike. The big money centre banks are flush with cash from record trading activity and better situated to defend franchise players.

That has left independent banks on the defensive, rather than poaching bankers.

"When you consider the possibility that this could be a relatively short downturn in M&A, it does not, from our point of view, make sense to cut muscle and bone," Evercore co-chairman Ralph Schlosstein said.

"We need to continue to invest in talent, which, of course, if we did that this year, would also have an effect on the reported comp ratio for the year."

Philip Scipio

potential threat to all of the other parties caught up in these affairs," the paper said.

Aggregated CACs get around this by ensuring any modifications of repayment terms obtain "broad support of the holders of the instrument" and "reduce the risks posed by any minority hold-outs to the issuer and the super-majority of holders who accepted the modifications".

However, they accepted that CACs, as recommended by the International Capital Markets Association, should not be abused.

"A healthy financial system must start with an assumption that contracts will be performed as they are written. Only extraordinary circumstances can excuse that performance and collective action clauses in sovereign bonds were not meant to give sovereign issuers the unilateral ability to change the terms of their bonds," the paper said.

Christopher Spink

Additional reporting by Paul Kilby

Shrinking HSBC equities arm gets new chief

HSBC is pushing on with plans to restructure its misfiring equities business into a leading emerging markets house, and has named *Franck Lacour* to run the business.

HSBC last week promoted *Lacour* to global head of equities to replace Hossein Zaimi, the Hong Kong-based equities chief who is leaving after 16 years at the bank. The change is expected to take place at the end of August.

Lacour is head of HSBC's French markets business and will retain that role until a replacement is found, according to a memo to staff seen by IFR.

The memo, from Georges Elhedery, co-head of global banking and markets, said that in the last several months HSBC has been repositioning and investing in its equities business with "the aspiration of being a leading emerging market equity franchise, while maintaining a relevant market position in the UK".

The memo added: "We have focused on automating and developing our execution capabilities, enhancing our wealth proposition and connectivity, and building out our prime finance led capabilities."

Elhedery said migrating structured products capabilities to Asia remains a priority and the bank will accelerate that process.

Equities has long been a weak spot for HSBC's investment bank, which is a far stronger debt and advisory house, and it set out plans in February to shrink the business.

It said it would reduce equity sales and equity research activities in Europe, and in the region it would mainly focus on supporting the equity capital markets team.

It wanted to move its structured product capabilities because "the opportunity for profitable growth is greater" in Asia than the UK.

The changes were part of a wider push to shrink GBM in Europe and the US, and shift more to Asia and the Middle East.

HSBC's equities trading revenues were US\$993m last year, down from US\$1.18bn the year before and US\$1.26bn in 2017. The top two equities houses, Morgan Stanley and Goldman Sachs, last year pulled in US\$8bn and US\$7.4bn from equities, respectively.

HSBC's equities revenues in the first quarter were US\$289m, down another 22% from the year earlier and accounting for less than 8% of GBM's revenues.

NEW TOP TEAM

Lacour joined HSBC in September 2010 and previously ran its European equities business and was global head of equity trading. He worked for Barclays from 2003 to 2010, where he held senior roles in equity derivatives. He has worked at Dresdner Kleinwort, First National Bank of Chicago and Societe Generale, according to his profile on LinkedIn.

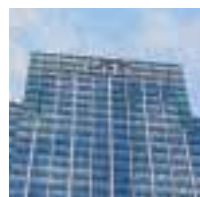
HSBC also appointed *Selene Chong* as deputy global head of equities and head of equities for Asia-Pacific, based in Hong Kong, the memo said.

Chong joined HSBC in 2001 as a graduate and has held roles in foreign exchange and global markets corporate services. She has led the bank's FX and commodities team in Asia for the past three years and will help drive the migration of structured products to Asia.

The bank named *Mehmet Mazi* as co-head of securities financing, in addition to his responsibilities as head of debt trading and financing. He will run securities financing alongside Richard Godfrey, co-head of securities services, the memo said.

Steve Slater

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CITIGROUP has appointed *Cristina Paviglianiti* and *Luca Sabbatini* as co-heads of markets and securities services for Italy. *Paviglianiti* joined Citi in 2006 as a salesperson for Italy's fixed income business in London and moved to Milan four years later. In 2013,

Paviglianiti and *Sabbatini* were appointed co-heads of the fixed income sales team for Italy. *Sabbatini* joined Citi's fixed income sales team in 2010, covering Italian banks and insurance companies.



Stephen Shapiro (left) will take over from *Bob Hoyt* as **BARCLAYS'** general counsel on August 1. *Hoyt* has been in the role for almost seven years, dealing with big and complex legal issues and major legacy conduct problems. *Shapiro* will retain his role as company

secretary. He joined Barclays in 2017 from drinks firm SABMiller, where he was company secretary and deputy general counsel. *Hoyt* will remain at Barclays until the end of 2020 as an adviser to the CEO on strategic projects.

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Bellwether

Bellwether: *n.* From the practice of placing a bell around the neck of a castrated ram so that it might lead its flock

THE DAYS OF banks splashing out on sports sponsorship appeared to be a thing of the past, but UBS has kicked off a new era in a sign that its transformation from crisis-era basket case to rock-solid financial institution is complete.

The Swiss bank secured a 20-year naming rights agreement for the new stadium of the National Hockey League's New York Islanders. The new stadium development, which will cost US\$1.5bn, will be called the UBS Arena.

The dog sounded like Schlosstein himself – no-nonsense but loveable. And that of course raises the question of whether other bank executives will bring their pets on to earnings calls

Tom Naratil, co-president of global wealth management and president of UBS in the Americas, is a massive fan of ice hockey, so he'll be delighted with the result.

It's a sign of confidence from the Swiss firm, but by showing pluck with the puck it also risks the prospect of an own goal. If performance slips will Naratil be skating on thin ice?

SURPRISE OVER AT HSBC with the ousting of Hossein "Hoss" Zaimi as global head of equities.

When head of global markets Georges Elhedery talked up emerging markets and the pivot to Asia last year, Hoss looked to be sitting pretty in Hong Kong.

But Elhedery is not afraid to shake things up, as Elie El Hayek has also discovered. Elhedery used to report to El Hayek earlier in his career, but when Elhedery was promoted last year, he turned the tables and El Hayek left in February.

Where will Hoss go from here? Perhaps it's time to use his family connections – his sister Sanaz is the all-powerful global head of FICC at Bank of America in Paris.

WHEN EVERCORE BOSS Ralph Schlosstein updated analysts on the firm's second-quarter results last week, his dog could be heard barking in the background. Pre-Covid, that would look like unprofessionalism, but in the WFH environment such interference is seen as entirely acceptable.

The dog sounded like Schlosstein himself – no-nonsense but loveable. And that of course raises the question of whether other bank executives will bring their pets on to earnings calls.

Deutsche Bank CFO James von Moltke may like to bring on a cute kitten to soften his image after showing a lack of empathy about recent job cuts when he talked of a "glide path of thousands of heads per quarter". As long as he doesn't sit stroking it like a Bond villain.

RBS HAS TOLD staff they won't be going back to the office until 2021, becoming the first big bank to rule out a return to work this year – and making a mockery of Prime Minister Boris Johnson's pledge that the UK will be back to normal by Christmas.

It's nice to see RBS showing understanding and extending the deadline to allow staff to return. By contrast, earlier this year its NatWest Markets division fired some staff over Zoom, meaning they won't be going back to the office at all. ■

Who's moving where...

■ **Anthony Miller** has joined **WESTPAC** from Deutsche Bank to head its institutional banking division. Miller will start later this year. He has been Deutsche's Australia and New Zealand CEO for the past three years and was previously a partner in Goldman Sachs' financing

group. Westpac hired KPMG partner Michael Rowland last week as CFO and has been adding to its executive ranks following a string of departures resulting from a money laundering scandal.

■ **Matt Doherty** has left his role as head of Central and Eastern Europe, the Middle East and Africa bond syndicate at Deutsche Bank to join **BNP PARIBAS**, a source said. Doherty joined Deutsche in 2010. He worked in debt capital markets origination covering CEEMEA,

before switching to EM debt syndicate in 2016. Doherty's move is the latest in a series across CEEMEA debt syndicate teams, including Alexander Karolev leaving BNP Paribas to join JP Morgan and Nick Darrant leaving JP Morgan to join Citigroup.

■ **Fredrick Giertz** has joined **JP MORGAN**'s equities team in London to develop machine learning in its investable index business. Giertz will develop quantitative investment strategies that use machine learning techniques, an area JP Morgan wants to grow. Giertz

joined from the Third Swedish National Pension Fund, or AP3, where he was head of quantitative strategies, ranging from alternative risk premia ones to those based on machine learning.

Loan, restructuring veterans set up advisory firm

Loan market and workout veterans *Jeff Ogden* and *Mark Rechan* have set up a new financial advisory firm, **OGDEN & RECHAN ADVISORS**, as defaults are forecast to spike amid the ongoing coronavirus pandemic.

The firm, which was launched on July 1, will assist both companies and creditors. The move comes at an auspicious time as companies' earnings are under pressure due to the current health crisis, which has led to government-mandated shutdowns and a drop in consumer demand.

Moody's Investors Services said its list of companies with the worst ratings, B3 negative and lower, have risen to 414, a new peak, and 42% higher than at the peak of the 2008–09 financial crisis. Fitch Ratings said the US high-yield trailing 12-month default rate will approach 5.5% by the end of July, the highest level since May 2010.

"There is going to be a real need for very senior, experienced people to help navigate a fairly extended cycle," Ogden said in a telephone interview.

"I've been in the business 40 years and Mark over 30 years, and we think we can be helpful to folks in preserving value and helping them through the process."

Ogden & Rechan Advisors can help companies, boards, and sponsors manage business operations, including turnaround initiatives. It may also work with creditors on restructuring options, providing business plan analysis, and monitoring.

Since announcing its formation, the firm has lined up several mandates, which Ogden said he could not discuss.

"Having done many financing transactions, we have the background to work with management teams and have a dialogue with their lenders," he said. "It will all be to facilitate a process to help preserve value."

Ogden was most recently a managing director on the syndicate desk at Barclays. He primarily focused on the natural resources, industrials and chemicals sectors, which included structuring debtor-in-possession

financing. He previously worked at Lehman Brothers, Deutsche Bank and Bankers Trust, including on workout situations.

"Sitting in a syndicate seat for a very long time, I've been a close eye-witness of the loan market over time. I'm very familiar with how these documents come together and have real insight into the ins and outs of situations," Ogden said.

Rechan has advised clients on all aspects of turnarounds and restructurings, previously working at advisory firms, including Zolfo Cooper and Alvarez & Marsal.

From 1999 to 2003, he was chief workout officer at collateralised loan obligation manager Stanfield Capital Partners. Rechan began his career in corporate lending at Manufacturers Hanover Trust and later focused on managing special assets at successors Chemical Bank and Chase Manhattan Bank.

"The key thing for us was bringing both sides to the table in terms of capital markets and restructuring," he said in an interview. Kristen Haunss

Deutsche joins banks getting capital lift

DEUTSCHE BANK said its capital ratio was stronger than analysts expected after clients repaid credit they had drawn down, joining rival Barclays and others to report a sharp, unexpected improvement in balance sheet strength.

Deutsche last week said its common equity Tier 1 ratio at the end of June was 13.3%, up from 12.8% at the end of March and above market expectations and previous guidance.

Deutsche said the increase was mainly due to lower-than-anticipated credit risk-weighted assets because clients repaid credit facilities – especially in the latter part of the

quarter – and a reduction of derivative volumes.

"The client facilities were initially drawn in reaction to the Covid-19 pandemic economic challenges and subsequently repaid or refinanced," Deutsche said.

The bank said it expects results for the second quarter to be "slightly above average consensus estimates" it had compiled. It is due to release Q2 results on Wednesday.

The news will be welcome, as concern about Deutsche's capital strength continues to dog the bank and weigh on its share price, despite an improvement under CEO Christian Sewing, who is implementing a far-reaching restructuring plan.

Barclays last week raised expectations that banks' second-quarter capital ratios would be better than expected. It said its CET1 ratio would be about 14% at the end of June, up from 13.1% at the end of March, helped by three positive regulatory factors, including amendments to the EU's Capital Requirements Regulation that came into effect in June, including transitional relief relating to IFRS9 impairment.

Swiss bank UBS last week said its CET1 was 13.3% at the end of June, up from 12.8% at the end of March and at the top end of the bank's 12.7%–13.3% guidance.

Steve Slater

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■ *Glenn Youngkin* is stepping down as co-CEO of private equity firm **CARLYLE GROUP** to leave Kewsong Lee as sole CEO. Lee joined Carlyle seven years ago after spending 21 years at rival Warburg Pincus. Youngkin will leave at the end of September after more than two decades at

the buyout firm, having worked his way up after joining from management consultancy McKinsey in 1995. Less than three years ago Carlyle's founders handed over the reins to Youngkin and Lee.

■ **BANK OF AMERICA** has promoted *Raul Anaya* to head business banking. Anaya has been at BofA for 30 years and will oversee the business line that serves mid-sized US-based companies. Anaya is also market president for the Los Angeles area.

■ Dutch bank **ING** is moving about 45 jobs from London to Amsterdam as a result of Brexit. ING said about 30 trading roles and 15 related risk management roles are in the scope of the move.

■ **HONG KONG EXCHANGES AND CLEARING** has hired *Janice Wu* to co-head its IPO vetting team. Wu, who is currently deputy general counsel for private equity firm TPG Asia, will have oversight of all listing applications alongside her fellow co-head Stephanie Lau.

■ **AMINVESTMENT BANK** CEO *Seohan Soo* has left the Malaysian bank, sources said. Soo is being succeeded by his deputy, Tracy Chen, on an interim basis. Soo was appointed CEO of AmlInvestment Bank two years ago after being executive vice-president in capital markets.

“Such a retrograde movement would inflict significant damage and cost on the market for emerging market sovereign bonds”

RENOWNED SOVEREIGN DEBT RESTRUCTURING LAWYER LEE BUCHHEIT, P14

Capital markets week ahead: Cellnex, Mindspace, Prosus



CELL CELL CELL Cellnex kicks off a rights issue on Monday – it's third in just 16 months – as the Spanish mobile tower operator seeks to build up a war chest for possible future acquisitions. At €4bn, it's likely to be one of the biggest equity deals of the year, with bankers confident of success after a €2.5bn cash call back in November was swamped with €100bn of orders.

But the latest rights issue won't have the full backing of the company's main shareholder Edizione, which represents the billionaire Benetton family. It has said it will not be taking up all of its rights, and last week sold €750m of shares in Cellnex as part of a tail swallow to help fund the rights that it will take up. Whether that and the vague use of proceeds hurts the deal remains to be seen.

WALK IN THE PARK Mindspace Business Parks prices its Rs45bn (US\$600m) listing on the Mumbai Stock Exchange on Wednesday. It's a landmark deal for India, as only the second REIT to list – and the first that has been offered to retail investors. The trust, which is backed by Blackstone and the Raheja family, owns properties in Mumbai, Pune, Hyderabad and Chennai.

TEN CENTS' WORTH Prosus is expected to launch a bond offering this week in US dollars and euros after meeting investors late last week to market the deal. The company was listed on the Amsterdam exchange in September as a vehicle to hold the internet assets of South Africa's Naspers – including its stake in Chinese e-commerce giant TenCent.

RUNNING A RED LIGHT Books will open on Monday for the Nasdaq IPO of Chinese electric carmaker Li Auto, which could raise up to US\$1bn. It's decided to go ahead with the New York listing despite a souring in US-China

relations over recent weeks, a development that has prompted other Chinese companies such as Alibaba and NetEase to seek secondary listings in Hong Kong.

CUTTING CORNERS Hangzhou Tigermed Consulting opens books on Monday on its Hong Kong IPO of up to US\$1.5bn, with the company deciding to plough ahead without the backing of a cornerstone investor – an unusual approach for deals there. The Chinese clinical research firm, which is already listed in Shenzhen, said having no cornerstone will give it more flexibility with pricing.

PAYING DIVIDENDS Vertex hopes to raise as much as US\$340m from its Nasdaq listing on Tuesday. The developer, best known for its tax software, is raising cash to pay down debt that was taken on to fund a dividend in late May to the family of founder Ray Westphal. It follows rival Avalara, whose shares have surged 450% since it went public in mid-2018.

SALE SALE SALE Brazilian fashion house Soma goes public on Wednesday in a deal that could raise as much as R\$2bn (US\$370m). The owner of various labels such as Animale, Farm and Cris Barros, plans to use proceeds from the deal to pay down debt, to build resources for acquisitions, and also to pay a dividend to its shareholders.

HIT THE BOTTLE Banks have until on Tuesday to participate in a €400m loan for Dutch bottling company Refresco. The company, which is the world's largest independent drinks bottler, handling more than 30 million litres a day, is borrowing the money to build a war chest for acquisitions in the US and Europe. It is also increasing its revolver by €200m.

PACKAGE DEAL Graham Packaging, the US manufacturer of containers for food, toiletries and cleaning products, wraps up a US\$1.4bn loan on Monday. It's borrowing under its own name as its New Zealand parent Reynolds Group shifts to operating the subsidiary more like a standalone business. Proceeds will go towards paying off Reynold's debts.

RESULT! Barclays, Deutsche Bank and Santander publish results on Wednesday. Expectations are high following bumper trading and underwriting results from US

rivals earlier this month. But last week UBS proved that the second quarter wasn't all plain sailing for banks, when it said it had taken a big hit on structured products. BNP Paribas reports on Friday.

ON THE ROAD Indian non-bank lender Shriram Transport, which makes loans to support vehicle purchases, is due to wrap up a Rs15bn (US\$200m) rights issue on Thursday. It is raising money to shore up its finances and prepare for a possible increase in arrears from borrowers as a result of the pandemic and lockdown. It plans to raise a further Rs25bn in convertible bonds or warrants.

HIGH AND MITIE UK outsourcing and facilities management firm Mitie wraps up a £200m rights issue on Wednesday. It is raising cash to help pay for its acquisition of smaller rival Interserve, which it agreed to buy for £270m in cash and shares, and which will increase its business with the public sector. It has also secured an extension on its £250m revolving credit facility to 2022.

THAI-D UP Thailand meets investors on Wednesday to outline its plans for the country's first sustainability-linked bond in baht. It's looking at all financing options after launching a Bt1.9trn (US\$60bn) stimulus package in May to support its economy. It has projected that it will need to borrow as much as Bt1trn.

PUTTING THINGS RIGHT South African clothing retailer TFG opens subscription on Monday on a R4bn (US\$240m) rights issue. Proceeds will reduce debt during what is expected to be a sustained period of economic uncertainty because of the pandemic, as well as to invest in e-commerce and take advantage of growth opportunities. Subscription runs until August 7.

LAST WEEK IN NUMBERS

€750bn – Debt issuance allowed under landmark European Union pandemic spending plans

9% – Decline in UBS equity trading revenues due to a sizeable hit from structured products

US\$4bn – Cash raised by Bill Ackman for his latest SPAC, a record for the asset class

Wells Fargo CEO continues shake-up with new CFO

WELLS FARGO has hired *Mike Santomassimo* to replace *John Shrewsberry* as chief financial officer when he retires in the autumn after more than two decades at the firm.

Since taking over as chief executive in October, Charles Scharf has shaken up leadership at the bank and installed a slew of former colleagues and confidants in top positions.

Santomassimo was most recently Scharf's CFO at Bank of New York Mellon and previously led the finance teams for various business lines at JP Morgan.

Shrewsberry, who told Scharf he was considering retirement when he joined the company, will stay on to ensure a smooth transition, the company said. Shrewsberry

was named CFO in 2014 after running Wells Fargo Securities and Wells Fargo's commercial capital division.

When Santomassimo joins the company in the autumn, the top three executives will be based in New York, away from the bank's official San Francisco headquarters.

Santomassimo will receive an annual base salary of US\$1.75m and minimum variable compensation of US\$9.25m for the performance year 2020, the bank said in a filing.

The change at Wells Fargo comes as it gears up to launch a broad cost-cutting initiative this year and continues to work through expensive regulatory and operational problems tied to a long-running

sales scandal.

On an earnings call this month, Scharf slammed prior management for failing to run the bank in an efficient and compliant manner, saying the firm's underperformance was "because leadership didn't make the difficult decisions necessary".

But he struck a different tone on Tuesday talking about Shrewsberry, a 22-year Wells Fargo veteran.

"Throughout his tenure, John has served as an excellent financial and strategic leader for our company," Scharf said. "He is well-respected throughout the company and the financial community."

Imani Moise, Noor Hussain

India calls for bond reforms

India's top securities regulator last week called for further reforms to deepen the corporate bond market but ruled out a relaxation of pricing rules on institutional share placements.

Ajay Tyagi, chairman of the **SECURITIES AND EXCHANGE BOARD OF INDIA**, said the bond market should be top of the agenda for policy makers considering the problems facing the banking sector.

"There is a dire need to move down the rating curve," said Tyagi, who called for greater integration of India's corporate and government bond markets.

The Sebi chairman, however, dismissed calls for a review of the maximum discounts allowed on qualified institutional placements, despite pressure from market participants.

"It is not on our radar," said Tyagi, who said share prices had fallen considerably from their highs so there was no immediate need for further concessions.

Sebi has taken several small steps to help companies access capital since the Covid-19 outbreak. It has extended approval periods

for IPOs, granted issuers more flexibility over the size of their financings, lowered size thresholds for rights issues and eased pricing rules for preferential share issues.

Tyagi stressed the need for more participants in the bond market, especially institutional investors. Mutual funds are the major investors, driving 40% of volumes, hence illiquidity hits them the most, he said.

India's bond market is open to only a limited number of companies, with issuance and trading restricted to top-rated issuers. Around 97% of trading in the domestic bond market is in securities with local ratings of AAA, AA+ and AA, compared with 5% in the AAA and AA buckets in the US.

India's central bank and finance ministry have introduced repo schemes and partial credit guarantees to improve liquidity in the bond markets, but progress has been slow and investors remain risk-averse.

Banks are facing an unprecedented surge in stressed assets as a result of the Covid-19

crisis. S&P expects bad assets to reach 13%-14% of outstanding loans by March 2021, up from 8.5% at the end of the last fiscal year.

Banks have been asking Sebi to ease pricing rules on institutional share placements to make it easier for companies to raise capital.

Under the current rules, Indian issuers are allowed to offer a discount of no more than 5% to the floor price, defined as the average price of the stock in the previous two weeks. That formula makes it effectively impossible for companies to complete a deal in a falling market.

Sebi's pricing rules have come under fire after equity issuance ground to a halt during the Covid-19 outbreak. There were no major primary share offerings in India in the whole of April, in contrast to a multi-year spike in many other markets as companies rushed to raise capital. Regulators elsewhere – notably in China – have relaxed similar pricing restrictions since the pandemic hit. Krishna Merchant, Anuradha Subramanyan

Japan wants speedier Libor transition work

With just a year and a half to go before the end of Libor, Japan's **FINANCIAL SERVICES AGENCY** and the **BANK OF JAPAN** are calling on banks to accelerate their preparations.

According to a survey released last week, 70% of financial institutions have not yet formed a working group to deal with the transition, and major Japanese banks have a large exposure to the benchmark interest rate.

The regulators surveyed 278 financial institutions operating in Japan from October

to December to assess their preparedness. While all major banks and foreign securities firms have set up a project team or working group, many insurers, domestic securities firms and regional banks have not. This probably reflects differing levels of exposure to Libor, according to the survey.

Notably, many institutions have not finished upgrading their IT systems. Almost 80% of respondents who said development was under way said the work was scheduled

to be completed in 2021, with 50% expecting completion in the second half of that year.

Major Japanese banks have a large exposure to Libor both as lenders and borrowers.

As of end-June 2019, lenders' exposure to Libor was about ¥164trn equivalent (US\$1.53trn), borrowers' exposure about ¥35trn and exposure through derivatives about ¥630trn. Of those, 50% to 60% extend beyond the end of 2021 – ¥97trn, ¥17trn and ¥320trn, respectively.

Takahiro Okamoto

“This could be a relatively short downturn in M&A (so) it does not make sense to cut muscle and bone”

EVERCORE CO-CHAIRMAN RALPH SCHLOSSTEIN, P14

Banks join push for nature-related disclosure

Ten financial institutions have joined a push by the UK and Swiss governments to build a nature-related reporting framework to limit risks to the financial sector by stopping environmental degradation and biodiversity loss.

The Task Force for Nature-related Financial Disclosures (TNFD) will be created by early next year to help financial institutions identify nature-related portfolio risks and start moving finance at scale into businesses that support nature.

It aims to bring the same level of disclosure to nature that has already been applied to environmental risks through the Task Force on Climate-related Financial Disclosures, and which will give the financial sector a more complete view of natural risk and start to value natural capital, which underpins the UN's Sustainable Development Goals.

“The new task force will complement the reporting recommendations that already exist for climate-related risks, to give investors, lenders and insurers a complete picture of their environmental risks,” said UK international environment minister Zac Goldsmith.

Around US\$44trn of economic value – more than half the world's GDP – is dependent on nature, according to a report by the World Economic Forum and PwC. The WEF said in January that biodiversity

loss was one of the biggest impact risks facing the world, alongside climate change and weapons of mass destruction.

Financial institutions need to assess, manage and mitigate nature-related portfolio risks to bring about the transformative change needed to ensure biodiversity conservation and sustainable use, members of the initiative said.

“This collaborative, international effort will bring crucial natural capital risks such as biodiversity loss to the heart of financial disclosures,” said Eric Usher, head of the UN's Environment Programme Finance Initiative.

“The TNFD will allow investors, lenders and insurers to have consistent information and transparency at their fingertips, allowing them to make informed decisions, bring efficiency to financial markets, and direct their investments towards nature-positive areas of the economy.”

UNEP FI also called for strict targets to reduce biodiversity loss in nine sectors where the financial sector is exposed through loans, investments or underwriting activities, in a July report with the Natural Capital Finance Alliance.

IMPACT REPORTING

TNFD's goal to establish a reporting framework for finance sector impact and

dependence on nature has been given added impetus by the coronavirus pandemic, which has reinforced the connection between nature and health.

The topic is also climbing the agenda before the delayed UN COP meetings in China and the UK next year.

“Our work around biodiversity and slowing the extinction of species gathered pace,” said Yo Takatsuki, head of ESG research and active ownership at AXA Investment Managers, in AXA's stewardship report for the first half of 2020.

Quantifying the materiality of nature-related risks is challenging, however, and the initiative aims to give financial institutions the reporting, metrics and data to understand their risks, dependence and impact on nature.

“Investors need to be able to assess biodiversity risks and opportunities but measurement remains difficult due to limited relevant and uniform data,” Takatsuki said.

The 10 firms to sign up to the working group include AXA, BNP Paribas, Rabobank and Standard Chartered. The UK and Swiss governments have signed up and talks are ongoing with the Dutch and French governments.

Tessa Walsh

Record ESG ETF inflows

Monthly inflows into ESG exchange-traded funds set a new monthly record of €3.7bn in June, out of total inflows of €14.2bn, according to Lyxor ETF's Money Monitor report into European open-ended funds and ETFs.

June's inflows lifted the amount of ESG ETF inflows to €14.3bn for the first half of the year, more than four times the €3.1bn average over the last five years.

June's inflow was also nearly four times higher than average monthly inflows of about €1bn for the last three years.

ESG funds held up well during the coronavirus volatility earlier this year and were the only exchange-traded funds to see inflows in March, continuing a two-year streak. Investors either increased portfolios by adding new money, or switched existing ETF investments into ESG funds.

The strength of inflows mean that ESG ETFs are continuing to take a higher share of the overall ETF market in the context of a lower year for fundraising, Lyxor ETF said.

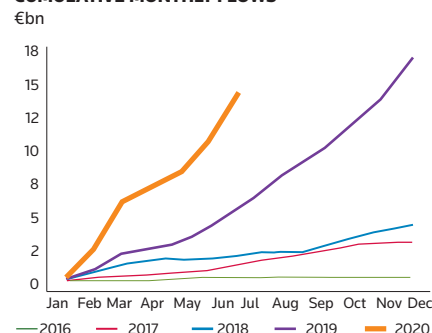
Its ETF Money Monitor report looks at 29,369 funds that reported flows in June. It

represents 92% of all Europe-domiciled funds and ETFs and covers €9.75trn of total assets.

FIXED INCOME GAINS

The ESG ETF inflows were predominantly into equities, which gained €2.8bn. Fixed income ETFs gained €0.9bn. Equity ETFs are more established than fixed income funds, and investors are turning existing equity

CUMULATIVE MONTHLY FLOWS



Source: Bloomberg, Lyxor International Asset Management.
Data as at 16/07/2020

ETFs into ESG products to increase sustainable assets.

The fixed income ETF market is developing quickly, however, driven by a strong preference for US dollar and euro corporate bonds since the start of the crisis.

“Fixed income ESG ETFs are gaining traction,” said Vincent Denoiseux, head of ETF research and solutions at Lyxor ETF. “It's not reflected in the numbers, but we see the acceleration very much in fixed income.”

The US has seen the most ESG ETF inflows, followed by Europe, global and Asia.

As ESG becomes more complex as an investment theme, ETF strategies are diversifying in their relation and proximity to benchmarks.

More ESG ETFs have been targeted at climate strategy in recent months, from low carbon previously, and the trend is towards more climate transition benchmarks and funds aligned with the Paris Agreement on climate goals.

Tessa Walsh

FRONT STORY EUROPEAN HIGH-YIELD

Stonegate gets M&A pub bond away

Investors dismiss second wave fears to grab yield

STONEGATE, the owner of the Slug & Lettuce pub chain, paid up to land one of the largest sterling bonds seen in the European high-yield market, coming just weeks after pubs reopened and overcoming the spectre of a second wave of coronavirus in the UK.

The company announced a €1.344bn-equivalent dual-currency senior secured bond early last week to fund its £2.97bn acquisition of Ei Group.

The key to the deal's success was its chunky yield and a soft collateral package of £4.1bn, both of which helped to lure investors into the financing.

"If you show a bit of spread in this market investors will have to take a look at it," said a source familiar with the deal.

"This credit, like Gamenet, is better than the two-line credit summary would suggest. There is a massive real estate portfolio behind it, with a rental income stream."

The week before Stonegate's bond, Italian gambling company Gamenet, which also suffered from site closures, had cleared a €640m financing for its take-private by private equity group Apollo.

UK-based Stonegate placed the bulk of the deal in its domestic market via a £950m five-year non-call two fixed-rate bond.

Leads *Barclays* (left), *Goldman Sachs* and *Nomura* also marketed a €300m five-year non-call one floating-rate bond.

The fixed-rate sterling bond is the second largest to land in the European high-yield market, according to IFR data, after Virgin Media's £1.1bn 6% April 2021s, which priced in February 2013.

The £950m 5NC2 bond landed at 8.25% after being talked at 8%-8.25%. The €300m 5NC1 note launched at Euribor plus 575bp and an OID of 93 after being talked at a 7.25%-7.50% yield. Books closed on Friday.

"NOW IT'S MORE INTERESTING"

The yield on the sterling tranche grabbed investor attention.

"Before [March], I would have been reticent about Stonegate. Now, actually it's more interesting – it's coming around 8% in sterling – relative to a market that is yielding around 5% on average," said a high-yield investor.

"You're getting paid a premium. You still have to evaluate their security, whether

they have flexibility, and what the liquidity situation looks like."

Stonegate's Ei takeover turns the company into the UK's largest pub owner and was completed just before the government shut down the hospitality industry on March 20 due to the coronavirus.

The company has since had a support package in excess of £200m from the UK government.

"Companies like Stonegate and ThyssenKrupp [Elevators] have been impacted by this environment, but their credit story is still intact," said the investor.

"The equity story is a lot rougher, but we think the credit gives you enough protection. Both Stonegate and TKE have big structures, and that makes it easier to be senior. However, they're not pricing in a perfect environment and we are thinking about those risks."

They include the amount of leverage Stonegate is taking on.

"Taking reasonable assumptions, leverage will be around 10 times through PIKs and LTV will be around 100%," said a second investor.

"This is clearly a hard deal right in the centre of [coronavirus]. However, the fact that there are real assets limits the downside ... and on the plus side management seems to have a handle on the business and clearly the UK government is supportive."

Investors had some takeaway from the results released since pubs reopened on July 4. More than 80% of Stonegate's outlets have now reopened, according to an investor presentation.

A third investor said there were still "clear structural uncertainties" around Stonegate's business.

"Management cited strong wet volumes of 85%-90% of pre-Covid-19 levels but I think this is due to pent-up demand and not a true reflection of us truly being this close to previous levels," he said.

Covenant Review analysts said that Stonegate was offering a "soft" collateral package – which, while not unusual in the European high-yield market, includes shares and certain bank accounts rather than security over any hard assets like real estate or equipment.

"Investors should note that this is a more limited security package than that provided for previous bonds issued by the company's subsidiary Stonegate Pub Company

Financing, which included certain other material assets, including certain freehold and leasehold properties," wrote analysts.

CASH BURN

During the forced closure period, Stonegate endured a significant cash burn, even after taking mitigating actions such as furloughing staff and deferring all non-essential expenditure, including rent payments, said Moody's analysts in a July 20 report.

As of July 3, the company had a cash balance of £96m, down from £229m on March 30, according to Moody's. The company also drew down £175m under its super senior revolving credit facility, which in more normal times would have been undrawn, wrote analysts.

The SSRCF, which ranks ahead of the secured notes in the event of a default, carries a Ba3 rating from Moody's, while the bonds are rated B3. Fitch rates the bonds B+.

"The length of time that it takes for the number of pub-goers to return to pre-crisis levels is uncertain, and until that happens, the company's ability to generate historic levels of earnings will be constrained," wrote Moody's analysts.

Moody's said investors may have to wait until mid-2022 before earnings growth results in Stonegate deleveraging.

However, the ratings agency said the company's liquidity will remain adequate over the next 12-18 months.

PRIVATE PLACEMENT

Bankers de-risked the transaction about a month ahead of time, placing a £500m 5NC2 fixed-rate private bond with a select group of investors. The note carried an 8% coupon and an OID of 96.50, said sources.

The private placement was the same instrument as the public sterling bond – but unlisted, unrated and untradeable, said the first source.

Stonegate backed the acquisition with a £2.5bn debt package that was underpinned by total contributed equity of £1.3bn, according to an investor presentation.

The financing package also included a sterling term loan that was pre-syndicated to banks, said a second source.

Eleanor Duncan

Corporate hybrid sales set to grow this year

First-time issuers, green aspirations and call financing to bolster supply

As issuers eye more than €16bn of upcoming hybrid calls, expectations for supply after the summer are high, according to Scope, following a rapid recovery in issuance over the first half of the year.

The European market remains highly conducive to hybrid issuance as the ECB's bond buying continues to push investors towards higher-yielding assets, which is good news for hybrid issuers that will look to refinance early the €4bn of paper that have calls this year and some €12bn callable in 2021.

"Early refinancing tends to be driven by market volatility – faced with rising uncertainty, issuers prefer to tap the market as early as possible – so we expect that issuance this year may match or surpass 2019's volumes," wrote Scope.

The pick-up in issuance is expected to be maintained, even if a second wave of lockdowns cause some additional market volatility, given the credit quality of the typical hybrid issuer.

"If you look at who are the main issuers of hybrids, a large number are from very defensive sectors like the utilities," said Azza Chammem, analyst at Scope.

"So, even if there were to be a second wave and more volatility, they will likely still be looking to refinance the calls and be able to access the market."

Furthermore, with the finances of many investment-grade borrowers strained by the outbreak of Covid-19 and the subsequent slump in economic activity, hybrid instruments, with their 50% equity weighting, are becoming an increasingly attractive tool to bolster credit ratings.

NEW NAMES

First-time issuers are likely to become more common, especially given the success of BP's debut transaction in June, which underpinned the recovery. The oil major raised €10.6bn-equivalent across three currencies and five tranches.

"A number of issuers that have not issued hybrids before would have seen BP be able to do a very large deal and thought 'Why not us?', so that would have been very supportive for other potential new issuers," said Chammem.

Bankers agreed, also highlighting that in the current market issuers are able to execute transactions at attractive levels given the demand for the product and the lower yields.

The average yield on the iBoxx EUR Non Financials Subordinated Index has started to fall

again after rising slightly during June. Last week, it stood at 2.37%, in line with where it was in early March and well below its high of over 5.3% on March 19, according to Refinitiv data.

MORE GREEN

Green financing is likely to be another area of growth among the issuers of hybrids.

"ESG-related financing through the hybrid segment continues to be noteworthy, growing beyond utilities and government-linked companies to telecom operators such as Telia and

Telefonica SA," wrote Scope.

The instrument is particularly useful for companies looking to invest heavily in making their businesses greener. TenneT, the Dutch transmission system operator, recently issued a €1bn 2.374% PNC5.25 green hybrid to support its annual green investment target of €4bn–€5bn. It opted for hybrid debt to help maintain its credit rating, given the equity-like nature of the product.

As companies increasing incorporate environment goals into their business strategies, examples such as this are likely to become ever more commonplace.

"There's no reason why we shouldn't have more green hybrid issuance. ESG is becoming an increasingly important part of corporate strategies, so there is no reason why it should just be constrained to senior issuance," said a DCM banker.

Green hybrids have the potential to offer an additional attraction in regards to pricing, he said. Green investors can be less price-sensitive when it comes to new issuance and are keen to look at green corporate debt generally and hybrids in particular as a means of diversification and yield generation.

In total, European supply of corporate subordinated debt rose to more than €21.4bn for H1 compared with €14.9bn for the same period in 2019 despite the complete absence of new issues during March, April and most of May.

"Without BP's dramatic entry to the market, H1 volumes would have shown more clearly the near absence of new issues between mid-February and mid-May when the impact of the Covid-19 shock reduced deal-making activity," wrote Scope.

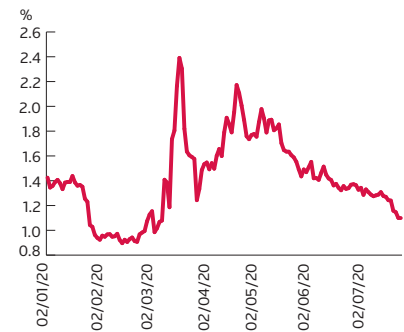
However, activity for the rest of the year should remain robust, and Scope predicts 2020's total volume will match or even exceed 2019's €30bn.

Ed Clark

WEEK IN NUMBERS

1.10%

■ THE YIELD ON ITALY'S 10-YEAR BENCHMARK, ITS LOWEST SINCE LATE MARCH FOLLOWING THE EU'S NEW STIMULUS PACKAGE ANNOUNCEMENT

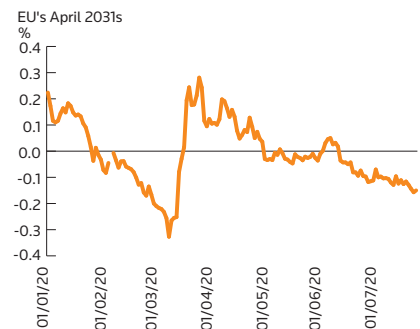


€52bn

■ THE AMOUNT OF BONDS THE EU CURRENTLY HAS OUTSTANDING, LESS THAN THE ANNUAL FUNDING PROGRAMME FOR KfW

€750bn

■ THE SIZE OF THE EU'S RECOVERY FUND COMPRISING €390bn OF GRANTS AND €360bn OF LOANS. THE EU WILL FUND THE PACKAGE THROUGH THE BOND MARKET OVER THE NEXT FEW YEARS, BECOMING THE WORLD'S BIGGEST ISSUER AS A RESULT



€100bn

■ THE SIZE OF THE EU'S SURE LOAN PROGRAMME, WHICH WILL ALSO BE FINANCED IN THE BOND MARKETS OVER THE COMING MONTHS

€640m

■ THE AMOUNT OF CORPORATE BONDS THE ECB BOUGHT (NET) IN THE WEEK TO JULY 17 AS PART OF ITS CSPP COMPARED WITH €3.272bn THE WEEK EARLIER
In total, it has bought €41.724bn

SSAR

US DOLLARS

WORLD BANK JOINS DOLLAR FLOW AS PACE EXPECTED TO SLOW

The **WORLD BANK** took its turn to tap the US dollar primary market last Tuesday in what has been an accommodating and well-supplied sector, but some suspect the pace of issuance in the currency should slow in the weeks ahead.

Although orders did not reach the blockbuster levels of its previous US dollar five-year, when it printed an US\$8bn 0.625% April 2025 off a book of US\$12.4bn, appetite for the new July 2025s still benefited from the buoyant demand seen in recent dollar SSA issues.

"Sure, it was not the massive trade that they printed before, but the interest was strong and it is in line with what we are seeing in the market," said a syndicate banker.

"For example, if you look at where it is pricing it is pretty much in line with fair value."

When books opened on the Triple A rated sustainable development bond, leads

Citigroup, Goldman Sachs, Morgan Stanley and TD Securities had already received Iols in excess of US\$4bn, setting guidance at 12bp over swaps, flat to IPTs.

"This was an excellent start to our fiscal year," said Andrea Dore, head of funding at the World Bank. "The spread was back near pre-Covid levels after the market widened significantly by more than 20bp."

With orders north of US\$6bn, syndicate desks were able to fix the spread at 10bp, coming inside KfW's US\$5bn 0.375% July 2025 placed at 13bp on July 7 and on top the IFC's US\$2bn 0.375% July 2025 sold at 10bp spread on July 12. Those bonds were bid at 8bp and 9.5bp, respectively, last Tuesday, according to Tradeweb.

"Another thing to note was the amazing quality of the order book, it was diverse with more than 100 investors, but the most important thing was the quality," said Dore.

"Around 60% of the bonds were placed with central banks and official institutions with bank treasuries the next largest investor group after that."

The supply in the US dollar SSA market has been in heavy in recent weeks and some bankers are now expecting issuance to tail off. Before Tuesday's deal, nearly US\$22bn of new benchmark Global SSA dollar bonds had been sold since the start of July, according to Refinitiv data.

"The pipeline is looking a little thinner. At first, people thought maybe we wouldn't have as much of a summer break this year, but now you look you can see a lot of issuers have already done a lot of funding. Things are already quietening down a bit on the dollar front," said the syndicate banker.

ISSUERS LAND FLAT TO FAIR VALUE IN HOT DOLLAR PRIMARY

Despite the heavy supply of new deals, SSA borrowers were able to hit the US dollar primary market last week at attractive levels, fixing the spreads on new issues flat to fair value.

CPPIB CAPITAL opened books for its third US dollar benchmark of the year last Wednesday, drawn in by the investor appetite.

"It is an appropriate time to come to market, as there is strong demand from investors for CPP Investments in the US dollar market and pricing was attractive for us," said James Logush, managing director, financing, collateral and trading at CPPIB.

CPPIB's Triple A rated outing was no different, setting the spread on the July 2025s at 19bp over swaps, down from IPTs of 20bp. The size had already been announced as US\$1bn and the final order book exceeded US\$2.1bn.

ALL INTERNATIONAL GREEN BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	36	5,469.76	6.9
2 Credit Agricole	21	4,915.10	6.2
3 BNP Paribas	29	4,845.35	6.1
4 Citigroup	22	4,552.79	5.8
5 Bank of America	29	3,867.38	4.9
6 HSBC	30	3,661.40	4.6
7 SG	19	3,627.80	4.6
8 ING	24	3,545.11	4.5
9 Barclays	20	3,428.96	4.3
10 Deutsche Bank	20	3,080.05	3.9
Total	145	79,069.74	

Excludes social bonds and mixed use of proceeds.

Source: Refinitiv

SDC code: GJ1

ALL INTERNATIONAL BONDS (ALL CURRENCIES)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	1095	288,336.00	8.7
2 Citigroup	852	241,564.72	7.3
3 Bank of America	893	241,028.06	7.2
4 Barclays	732	219,371.01	6.6
5 Goldman Sachs	619	182,621.12	5.5
6 HSBC	712	167,760.76	5.0
7 Deutsche Bank	593	155,319.36	4.7
8 BNP Paribas	574	154,155.66	4.6
9 Morgan Stanley	492	147,022.12	4.4
10 Credit Agricole	418	103,454.43	3.1
Total	3,762	3,330,145.62	

Including Euro, foreign, global issues. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: J1

ALL BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 BNP Paribas	322	90,069.82	8.2
2 JP Morgan	276	76,834.06	7.0
3 HSBC	278	69,127.62	6.3
4 Barclays	246	67,217.43	6.1
5 Credit Agricole	235	67,133.23	6.1
6 Deutsche Bank	237	64,520.84	5.9
7 UniCredit	218	56,637.79	5.1
8 SG	203	54,540.09	4.9
9 Citigroup	194	54,531.80	4.9
10 Bank of America	196	50,419.85	4.6
Total	1,201	1,102,170.56	

Including Euro-preferreds. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: N1

EUROPEAN SOVEREIGN BOND AUCTION RESULTS WEEK ENDING JULY 23 2020

Pricing date	Issuer	Size	Coupon (%)	Maturity	Average Yield (%)	Bid-to-cover
Jul 21 2020	UK	£3bn	1.50	Jul 22 2026	-0.064	2.64
Jul 21 2020	Germany	€4.08125bn	0.00	Jun 10 2022	-0.68	2.12
Jul 21 2020	UK	£2.25bn	0.625	Oct 22 2050	0.683	1.78
Jul 22 2020	UK	£3bn	0.125	Jan 31 2028	0.045	2.15
Jul 22 2020	Germany	€1.26135bn	1.25	Aug 15 2048	-0.06	2.40
Jul 22 2020	Portugal	€430m	2.875	Jul 21 2026	-0.108	2.72
Jul 22 2020	Portugal	€820m	0.475	Oct 18 2030	0.352	1.97
Jul 22 2020	UK (i)	£500m	1.25	Nov 22 2032	-2.853	2.51
Jul 22 2020	Italy	€903m	2.45	Sep 1 2033	1.357	-
Jul 22 2020	Italy	€493m	2.25	Sep 1 2036	1.517	-
Jul 22 2020	Italy	€255m	5.00	Aug 1 2039	1.721	-

Source: IFR

“It is consistent with what we have been seeing in the market, the deal went really well and the appetite is such that you can get really good execution,” said a banker.

The World Bank achieved a similar feat the day before, issuing a US\$5bn 0.375% July 2025 at 10bp over swaps, flat to fair value.

Several bankers said that central bank buyers have been particularly active in new dollar deals, including the World Bank’s. Central banks and official institutions accounted for 59% of that deal’s distribution (see separate story).

Across all currencies, 2020 has marked an active year for CPPIB, issuing benchmark bonds in euros, sterling and US dollars over seven tranches before Wednesday’s offering. During the full 12 months of 2019, the issuer only tapped primary markets four times, according to Refinitiv data. This greater issuance, however, is not down to a rise in funding needs related to the pandemic.

“[There have been] no changes as a result of the pandemic. This issuance is part of our regular programme of board-approved bond issuances,” said Logush.

The issuer followed two Canadian provinces into the dollar market. The previous week, Alberta (Aa2/A+/AA–) sold a US\$2bn 1.30% July 2030 at a spread of 72bp over swaps and Quebec (Aa2/AA–/AA–) secured US\$3.25bn of funding with a 0.60% July 2025 at plus 30bp.

SEK MAKES IT A HAT TRICK

SWEDISH EXPORT CREDIT (Aa1/AA+) has been similarly active this year and on Thursday returned to the US dollar market with a US\$600m four-year note, its third deal in as many months.

While the bonds from the World Bank and CPPIB both tightened in the preceding days, there was no movement seen in SEK’s July 2024 offering, with the final spread set at mid-swaps plus 17bp by BMO, Bank of America and Morgan Stanley.

“It’s a typical four-year deal in the midst of July,” said a lead, who described the pricing as pretty much spot on fair value.

Order books topped US\$725m by the first update, excluding joint lead manager interest. The 0.375% US\$600m deal was the same size as SEK’s previous venture into dollars.

The last transaction was a US\$600m tap of its 1.75% December 2023 paper less than six weeks earlier at 21bp over mid-swaps, while a US\$1.75bn three-year note in March that priced 40bp over mid-swaps was a record deal size for the issuer.

The latest deal sits between the December 2023s and the May 2025s, respectively bid at 18bp and 24bp over mid-swaps last week, according to Tradeweb.

Sovereigns to face increased scrutiny on impact reporting

■ SSAR Investors keen but transparency key

European sovereigns, gearing up their presence in the green debt market, will gain access to a rapidly growing base of investors but will be challenged to improve impact reporting as those buyers become more demanding.

SWEDEN is preparing an inaugural Swedish krona green bond with a maturity of seven to 10 years for issuance in August. **GERMANY** is also considering a maiden 30-year deal for September, while **SPAIN, DENMARK, ITALY** and **AUSTRIA** are also eyeing the sector.

But sustainability analysts expect impact reporting to become a recurrent hurdle in the path of potential sovereign borrowers that do not adjust their frameworks to showcase long-term strategies that align with the UN’s Sustainable Development Goals and that can withstand investor scrutiny.

“Impact reporting is a challenge for every issuer that comes to the market because there is no standard methodology . . . The additional difficulty with sovereigns is the multitude of projects that are being funded,” said Johann Ple, a green bond manager at AXA Investment Managers.

Increased investor sophistication is driving the growth in green bond funds as well as the development of impact investing. Ple said green bonds cater to investors’ demand for

more transparency from issuers and also their eagerness to impart more transparency on the impact of their own investments on climate risk mitigation.

Investors now have clearer approaches regarding ESG and how they allocate to portfolios. They are paying increasing attention to external non-financial risks when building their investments, according to Ple.

“The focus has grown further over the past months with Covid-19,” he said. “Just like the pandemic, climate issues can also be seen as external non-financial risks.”

When it comes to sovereigns, investors do not just focus on green bonds’ use of proceeds but rather how ambitious governments are with their environmental policies.

“Investors now look at the underlying sustainability strategy of the issuer and then look at the framework of each green bond to see if it aligns with that strategy,” said Caroline Haas, head of sustainable finance for SSAs and FIs at NatWest Markets.

Sovereigns differ from other types of issuers as they do not fund portfolios of eligible green assets. Instead, their budget is geared towards financing operational and indirect expenditures, such as subsidies and tax exemptions.

EUROS

▶ IMPRESSIVE DEMAND FOR GERMAN NAMES

KFW continued its busy start to the second half of the year with an eight-year green euro transaction – its first new benchmark in the currency since April.

The €3bn no-grow September 2028 deal was marketed by *Commerzbank*, *Credit Agricole* and *NatWest Markets* with initial guidance of the mid-swaps minus 12bp area.

Pricing tightened, with the final spread set at mid-swaps minus 13bp on a sizeable order book exceeding €9bn, excluding joint lead managers.

“It’s more or less at fair value,” said a lead. “The green element really helped. If they’d tried a comparable trade with a normal format, I’m not sure whether they would have got this result.

“The market itself has got quite tight and some investors are concerned around how

much tighter it can go, but to be able to get this done more or less at fair value is a true testament to KfW,” he said, while noting the level of interest from ESG investors was pretty high.

KfW has ESG ratings from ISS-ESG (Prime, C+), Sustainalytics (negligible risk), MSCI (AAA) and IMUG (positive, BB). CICERO Shades of Green has provided a second opinion on KfW’s green framework.

KfW recently returned in style after a near three-month absence from primary issuance in major currencies, with a record-breaking US dollar five-year deal.

The German agency (Aaa/AAA/AAA) slashed its annual funding target by €10bn in its mid-year announcement, in contrast to a lot of its peers, pointing to cheaper alternative forms of financing such as the TLTRO III.

The focus for the second half of the year was on returning to the US dollar market and launching a green bond, and, three weeks in, both of these have been successfully achieved with aplomb.

These incentives are eligible under green frameworks as they help funding environmental initiatives. However, analysts say that sovereigns cannot claim those impacts as their own, as doing so could lead to double counting.

The **NETHERLANDS**, for example, issued a green bond in May 2019 where subsidies to renewable energy form part of the eligible expenditures – referred to as the SDE+ programme in its impact report earlier this year.

“The state is claiming the impact from that scheme as it helps finance the production of renewable energy. The challenge is that companies that are building the projects linked to that subsidy may also claim that impact as well,” said Jacob Michaelsen, head of sustainable finance advisory at Nordea.

“It is important to note that this does not mean that the Dutch state – or any other sovereign, for that matter – is at fault,” he said. “What is important for issuers is to be mindful about the internal inconsistencies around double-counting impact: they primarily need to ensure they do not finance the same portion of assets twice with their green bonds and loans.”

Michaelsen said that at an external level it is up to investors to consider exemptions and subsidies when aggregating data.

These complexities may mean investors turn to external providers instead of relying on impact reporting, Ple said.

“With external providers you get the bigger picture. They try to standardise the methodology, assess every impact of every green bond we invest in, and present the results in the most comparable manner,” he said.

Sovereigns will also need to reconsider the frequency of impact reporting, as investors want

to see actual outcomes and not just allocations, analysts said.

“What happens is that a sovereign issuer will tend to report only once on the impact of that specific expenditure after the bond is issued,” said Sachin Shah, sustainable markets and SSA DCM at ING.

“I feel that investors will increasingly want annual impact reporting from the issuer through the life of a green bond, especially if a sovereign is issuing a long-dated bond,” Shah said.

The duration of bonds versus the duration of green assets is another factor that may also attract scrutiny.

“There is nothing in the Green Bond Principles that says issuers have to have the same assets all the way through,” Michaelsen said. “If an issuer is doing a 20-year bond, can it finance assets with green definitions that are not aligned with the initial trajectory? The answers would be different for each type of assets, such as wind parks or buildings.”

According to Ple, this should not be a major issue for investors that properly assess green bonds and their alignment with frameworks. “The main drawback is that the change in project could alter the impact of the portfolio, which is something to monitor,” he said.

Away from impact reporting, bankers said the lack of sound policies and climate objectives are an obstacle in sovereigns’ path and will remain so.

“While the ministry of finance may see merit in issuing a green bond, there are not strong enough policies and climate objectives at government level or at key ministries in areas like energy, transport,” Shah said.

SOCIAL BONDS NEXT?

Market participants are discussing whether social bonds may become the next frontier for sovereigns given the majority of government expenditures are related to social outcomes.

“Sovereigns tend to be careful so that they are not ‘greenwashing’ their issuance . . . Do they actually need a social bond programme? It will be decided over time if the tagging and the actual framework itself will be favourable from an investor perspective,” Haas said.

Other analysts said sovereigns have a key part to play in the growth of the market since they have a strong social mission.

For Ple, government subsidies such as those implemented during the coronavirus could be highlighted by social bonds. And this, he said, will make the policy of a country more readable for investors.

Shah said that in the supranational and agency sectors, most of the new frameworks that have been added or updated this year have been on the social side.

“I think there is potential for social sovereign bonds in the years ahead, as we start to see more dedicated social bond funds emerge – at the moment, there are only a handful – and social bond indices perhaps,” he said.

Analysts expect impact reporting to be a hurdle for sovereigns issuing social debt.

“How do you assess the impact of a social bond? It is even more abstract than a green bond,” Ple said.

“This is why governments will maybe wait to make sure they can do this properly before they jump in.”

Malicka Danna Sielinou

LONGER MATURITIES PREFERRED

BERLIN made a swift and impressive return to the euro market last Tuesday, with a tap of its 15-year warmly greeted by investors.

The issuer’s no-grow €500m addition to its €500m 0.125% June 2035 LSA had final order books closing in excess of €1.7bn, excluding joint lead manager interest.

The spread came in at mid-swaps plus 7bp through *HSBC*, *LBBW*, *NatWest Markets* and *UniCredit*, 2bp tighter than initial guidance.

“There is currently still a demand for 15-year tenors in federal state transactions because they still yield in positive territory,” said a lead.

“The pick-up you receive on the swap curve from 10 to 15 years is around 16bp, which is quite steep and makes it more interesting for investors.”

Berlin’s last deal was a poorly received €500m 10-year that came less than a month ago with a yield of –0.157%. In contrast, the latest trade offered a positive yield of 0.033%.

A second lead agreed with the first’s view that the deal was helped by the longer tenor.

“That kind of maturity has been where we’ve seen more interest – it’s positive yield, and I think that fact has really helped.

ANOTHER TIGHT TAP

HAMBURG ventured back in the market last Thursday with a reopening of its 0.01% June 2030 LSA that was twice subscribed.

“The name is not that frequent in the market . . . Economically it is also one of the better Laender, which is why it usually comes a bit tighter than others,” a lead manager said.

BNP Paribas, *DekaBank*, *LBBW*, *RBI* and *TD Securities* began marketing at the mid-swaps flat area for a €250m no-grow trade. The tap was set at that level, after Hamburg garnered more than €515m in orders.

“I think it priced pretty much on the curve, though it is hard to say because secondary is quiet at the moment,” a banker away from the trade said.

Bankers say Laender supply will remain steady in coming weeks at the pace of one trade a week, with the next one expected for Tuesday.

Laender typically scale down the frequency of issues over the course of summer.

“The market is still there and everyone is expecting a hot September, more precisely a hot second half. So, some Laender may have an idea to do something ahead of that and before their summer break,” the banker away from the transaction said.

The lead manager said Laender have additional funding needs, not just due to their pandemic responses but also because they have not received much in terms of tax earnings.

“The Laender who didn’t do a lot in the beginning have needs to fulfil and they will come. However, those who did a lot, like NRW, will stay away for some time,” he said.

EUROFIMA DUAL-TRANCHE LANDS ON TRACK

EUROFIMA further built out its green curve with a two-part euro offering that was comfortably covered.

A no-grow €300m six-year tranche at 17bp over swaps marked Eurofima's fourth green bond since its 2018 debut and was the second time in just over two months the issuer has added another maturity point.

The final update put the order book at more than €415m, including €25m of lead manager interest.

At the same time, A2/AA rated Eurofima conducted a tap of its 0.15% October 2034s with a no-grow €250m transaction. The bond priced in a €500m size last September at swaps plus 16bp and was quoted around 24bp bid over on Tradeweb at the time of the latest deal. The tap came at plus 25bp. Demand topped €370m, excluding lead manager interest.

"It's been a success in terms of what they're looking for," said a lead. "The deal was always going to be capped at €300m and €250m, as it was funding specific loans into specific railways and that was the only needs they had."

"It's fair to say on the six-year that the €300m was a slightly smaller deal size than perhaps normal for a new line in SSA, but Eurofima match fund everything – they fund to what disbursements they need on the asset side."

ALL US DOLLAR FIXED-RATE GLOBALS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	273	92,984.29	11.0
2 Bank of America	268	92,501.14	10.9
3 Citigroup	243	90,089.26	10.6
4 Goldman Sachs	157	65,035.87	7.7
5 Morgan Stanley	145	55,654.26	6.6
6 Wells Fargo	169	48,523.94	5.7
7 Barclays	129	43,640.04	5.2
8 Deutsche Bank	93	35,944.67	4.2
9 RBC	94	29,681.44	3.5
10 TD Securities	80	28,591.07	3.4
Total	482	847,040.52	

Excluding equity-related debt, ABS/MBS.

Source: Refinitiv

SDC code: O5

ALL AGENCY BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 HSBC	35	11,530.61	11.9
2 JP Morgan	29	9,824.46	10.1
3 Credit Agricole	26	7,774.72	8.0
4 Barclays	20	7,184.12	7.4
5 Deutsche Bank	17	6,370.43	6.6
6 BNP Paribas	25	6,058.55	6.2
7 NatWest Markets	14	5,685.13	5.9
8 Bank of America	12	5,071.60	5.2
9 SG	20	4,876.31	5.0
10 Commerzbank	19	4,550.17	4.7
Total	125	96,988.11	

Excluding equity-related debt. Including publicly owned institutions.

Source: Refinitiv

SDC code: N6

Bookrunners *Credit Agricole*, *Deutsche Bank*, *JP Morgan* and *Nomura* priced the green bond with a premium of about 2bp, according to the lead.

Eurofima also has green paper at the February 2024 and May 2030 points, the latter its most recent euro outing back in May.

That €750m 2030 bond came at swaps plus 25bp on a book of €1.1bn and has since tightened to around 20bp.

Proceeds will be lent to railways to invest in electric passenger transport. The issuer is not a PSPP-eligible name.

NON-CORE CURRENCIES

TCORP GOES SHORT FOR A\$2bn

NEW SOUTH WALES TREASURY CORP, rated Aaa/AAA (Moody's/S&P), received a strong response to last Friday's rare short-dated floating-rate note offering from a state issuer.

A tap of A\$2bn (US\$1.43bn) of the October 9 2023s, which increased the size of the line to A\$3.67bn, was priced at 100.603, at the tight end of three-month BBSW plus 20bp–22bp guidance.

ALL INTERNATIONAL US\$ BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	739	195,628.44	10.3
2 Bank of America	661	174,735.78	9.2
3 Citigroup	633	171,256.09	9.0
4 Goldman Sachs	467	134,690.89	7.1
5 Barclays	420	131,297.03	6.9
6 Morgan Stanley	370	110,776.17	5.8
7 Wells Fargo	356	87,488.65	4.6
8 Deutsche Bank	334	76,073.41	4.0
9 HSBC	312	71,723.95	3.8
10 RBC	220	54,934.02	2.9
Total	1,827	1,903,526.93	

Including Euro, foreign and global issues. Excluding equity-related debt, US Global ABS/MBS.

Source: Refinitiv

SDC code: O1

ALL SUPRANATIONAL BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 JP Morgan	13	5,655.23	9.3
2 Deutsche Bank	11	5,542.64	9.1
3 Credit Agricole	14	5,377.33	8.8
4 Goldman Sachs	7	4,685.00	7.7
5 HSBC	7	4,420.76	7.3
6 BNP Paribas	11	4,317.13	7.1
7 SG	8	4,089.88	6.7
8 Bank of America	10	4,049.30	6.7
9 UniCredit	6	3,751.63	6.2
10 Barclays	7	3,462.43	5.7
Total	43	60,778.84	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N5

ANZ and CBA were joint lead managers for the syndicated reopening, which attracted A\$2.749bn of bids at the final price.

Australian investors took 95% and Asia 5%. Bank balance sheets dominated with a 86% allocation, while asset managers bought 10% and official institutions 4%.

Bank balance sheets have built up a lot of cash from increased deposits and maturing bonds, and TCorp provided a rare opportunity to invest in this part of the curve in this format, with state governments having recently focused on long-dated fixed-rate issues.

TCorp also increased its 3% February 20 2030 bond issue by A\$300m last week via a Yieldbroker tender at spreads between 47bp and 47.5bp over the December 10-year bond futures contract.

TCorp, like Treasury Corp of Victoria, has thus far retained its Triple A ratings from both Moody's and S&P.

Last week, Moody's reported that Australia's states are planning to spend A\$50bn in response to the coronavirus crisis, which will greatly increase their debt levels in 2021, particularly across the Eastern states.

Moody's said it expects states to maintain their resolve to contain spending and

ALL SOVEREIGN BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 BNP Paribas	32	30,796.94	11.1
2 JP Morgan	42	27,762.27	10.0
3 Citigroup	28	19,609.56	7.1
4 HSBC	19	16,666.46	6.0
5 Barclays	28	15,823.63	5.7
6 Credit Agricole	19	15,612.81	5.6
7 Bank of America	31	14,371.52	5.2
8 SG	17	14,266.46	5.1
9 UniCredit	10	13,361.29	4.8
10 Goldman Sachs	19	13,351.50	4.8
Total	123	277,809.74	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N4

MUNICIPAL, CITY, STATE, PROVINCE ISSUES IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 UniCredit	42	12,274.27	16.2
2 JP Morgan	19	5,224.62	6.9
3 DGZ-DekaBank	33	5,200.59	6.9
4 Barclays	21	4,835.38	6.4
5 Nord/LB	30	4,664.40	6.2
6 BayernLB	22	4,637.66	6.1
7 Deutsche Bank	22	4,198.22	5.5
8 HSBC	28	4,055.52	5.3
9 Commerzbank	18	3,056.39	4.0
10 NatWest Markets	14	2,865.79	3.8
Total	129	75,806.35	

Excluding ABS/MBS.

Source: Refinitiv

SDC code: N7

implement additional budgetary redress measures once the outbreak has been addressed.

“Although states have entered the coronavirus crisis from positions of relative fiscal strength, the ability of each state to consolidate its financial strength before the next shock will largely depend on its ability to contain further outbreaks, while minimizing the disruption to economic activity from lockdowns,” according to the report.

SCARCITY AND YIELD BOOST EFIC

EXPORT FINANCE AUSTRALIA, also known as Export Finance and Insurance Corp, rated AAA by S&P, raised A\$650m (US\$465m) last Wednesday from a sale of 3.5-year fixed-rate notes.

EFIC’s first issuance in more than two years – since a A\$130m 10.5-year print in April 2018 – benefited from scarcity demand and a handy yield pick-up over the sovereign curve.

The notes, which enjoy an explicit government guarantee, are RBA repo-eligible and qualify as rare Level 1 high-quality liquid assets.

This leaves low liquidity as the only significant drawback relative to Commonwealth government bonds.

The 0.515% January 29 2024s were priced at par, at the tight end of the EFP (three-year futures) plus 20bp–23bp guidance and 17.85bp over the April 2024 ACGB.

CBA, Citigroup and UBS were joint lead managers for the offering from Australia’s export credit agency, which attracted an order book in excess of A\$1.26bn at final pricing.

Australian investors bought 85% of the bonds with Asia taking 9% and others 6%. Asset managers and insurance companies were allotted 44%, official institutions 28%, banks 25% and others 3%.

CORPORATES

US DOLLARS

FIRSTENERGY BONDS WIDEN ON NEWS OF OHIO BRIBERY PROBE

Bonds from Ohio-based electric utility **FIRSTENERGY** widened by as much as 76bp on Wednesday as news reports surfaced about its alleged involvement with a US\$60m bribery scheme.

The company’s 2.25% September 2030s that were priced in June at 150bp over

Treasuries tightened to 122bp earlier in the week but blew out to as high as 200bp over on Wednesday, according to MarketAxess data.

FirstEnergy’s most actively traded bond issue on Wednesday, a 2.65% March 2030, was also 50bp wider at 195bp over Treasuries.

This follows reports that the company was part of a bribery investigation involving Ohio House Speaker Larry Householder.

The bribes were made as part of a years-long campaign to elect Householder as speaker of the Ohio legislature in order to pass a US\$1.3bn bailout of two nuclear power plants, federal prosecutors said on Tuesday.

The bailout package, known as House Bill 6, was passed in July 2019 and went into effect in October.

FBI agents arrested Householder and four other advisers and lobbyists connected with the scheme on Tuesday morning.

FirstEnergy (referred to as Company A in the affidavit) is alleged to have wired the majority of the funds totalling some US\$38m from July 2019 to October 2019.

“This afternoon, FirstEnergy Corp. received subpoenas in connection with the investigation surrounding Ohio House Bill 6,” the company said in a statement released on Tuesday.

“We are reviewing the details of the investigation and we intend to fully cooperate.”

Those alleged payments from FirstEnergy were made well after its subsidiary FirstEnergy Solutions filed for bankruptcy and broke off from the parent company in April 2018, CreditSights noted in a pair of reports.

In February, FirstEnergy Solutions emerged from bankruptcy under the new name of Energy Harbor.

While the 2018 settlement removed the high risk Ohio and Pennsylvania-based nuclear and coal power plants from FirstEnergy’s portfolio, the parent company is still on the hook for future environmental obligations stemming from coal ash, said CreditSights.

“The salacious details of how that money was spent (with or without FirstEnergy’s knowledge) will lead to a management shake-up at FirstEnergy, shareholder lawsuits and an overhang on the company’s stock and bonds until all the bad players are unmasked as the US Attorney has pledged to do,” Andrew DeVries, CreditSights’ co-head of US investment-grade credit, wrote in a report.

Yet despite the scandal and additional scrutiny around environment, social and governance issues, DeVries does not see ratings agencies demoting FirstEnergy (Baa3/BBB/BBB) to junk.

But on Thursday S&P placed its BBB rating of FirstEnergy on creditwatch negative, noting that it could cut the utility by “one or more notches” in the next three months.

“That is pretty serious as it means S&P is considering taking it to junk,” said Carol Levenson, director of research at Gimme Credit.

“It is an ugly development and people should be fired, as well as internal controls and governance strengthened.

The firm has been an active issuer, already raising US\$2.5bn in the US-high-grade bond markets this year, according to IFR data.

The utility’s US\$1.75bn three-part deal in February generated a US\$7bn order book despite heavy coal exposure, pending liabilities and comparatively low ratings.

NOBLE ENERGY BONDS RALLY ON NEWS OF CHEVRON ACQUISITION

Spreads on bonds issued by **NOBLE ENERGY** tightened by more than 200bp last Monday on news that Chevron had agreed to buy the Texas-based hydrocarbon exploration company.

Noble Energy (rated Baa3/BBB–/BBB) had been trading some 138bp wide of average energy sector spreads, reflecting fears of a downgrade to high-yield, according to MarketAxess and ICE BofA data.

But fallen angel risks are seen fading under the umbrella of Chevron, which is one of the highest rated companies in the asset class at Aa2/AA.

Noble Energy’s 4.95% August 2047 issue was its most actively traded in the days following the news, tightening to as low as 170bp over Treasuries from 397bp over the prior week, according to MarketAxess data.

The all-stock acquisition is valued at US\$5bn, with an enterprise value of US\$13bn, including debt, according to the company.

S&P, Moody’s and Fitch all placed their ratings of Noble Energy on review for an upgrade.

“If Noble’s notes remain outstanding and are guaranteed by Chevron, then the ratings on the notes would be upgraded to Chevron’s rating level,” Moody’s stated in its report.

“If Noble were to be an unguaranteed subsidiary of Chevron post acquisition and continue to provide separate audited financial statements going forward, then its ratings would likely be upgraded based on anticipated parental support.”

Noble Energy has US\$5.88bn in debt outstanding, while Chevron has a debt stack of US\$22.3bn, according to Refinitiv data.

Chevron’s bonds only saw minimal spread movement from its already tight levels.

“Our strong balance sheet and financial discipline gives us the flexibility to be a

buyer of quality assets during these challenging times,” said Michael Wirth, Chevron’s chairman and chief executive, in a press release.

“This is a cost-effective opportunity for Chevron to acquire additional proved reserves and resources.”

EUROS

▲ AZZURRA LANDS SAFELY FOLLOWING STRONG INITIAL INTEREST

AEROPORTS DE LA COTE D’AZUR had a smooth ride as it executed a €660m no-grow deal in the European primary market last Tuesday, having already received indications of interest for a large portion of the bond.

The new issue was a refinancing exercise, with ACA also looking to extend its maturity profile, and came on an otherwise empty day in the high-grade corporate market.

“The absence of much supply certainly presents opportunities for some issuers that need to get funding in,” said a banker away from the deal.

The dual-tranche senior secured notes were issued by Azzurra Aeroporti (Baa3), the holding company of the French airport. ACA itself is rated Baa2.

A drop in passenger numbers dramatically reduced the airports’ revenues during the first half of 2020, Azzurra drew €105m from its available bank loans and from a new loan with French financial institutions, according to Moody’s.

This bank loan, due November 2021, is being refinanced with the new deal. Having signalled it was looking to raise liquidity and refinance, the issuer brought the bond off the back of interest from investors.

“They received interest, the market is conducive and they are getting the

refinancing of their 2021 loan now,” said a lead.

On Tuesday morning, lead managers *IMI*, *Morgan Stanley* (B&D) and *UniCredit* announced May 2024s and May 2027s at guidance of mid-swaps plus 260bp–270bp and 300bp–310bp, with a total no-grow deal size of €660m.

The initial interest leads received for a large portion of the overall deal also explains the intraday execution and starting at the guidance stage.

“We have a smaller price discovery element to the trade [because of the initial interest] and we can start at the guidance step,” said the banker.

Spreads landed at 255bp and 300bp with a combined book of over €1.55bn. With no outstanding bonds, fair value was relatively subjective, however, leads suggested comparables from issuers such as Brussels Airport, Fraport and Aeroporti de Roma.

Brussels (Baa1/–/BBB+), for example, has a 1% May 2024 that was seen at 165bp, while Fraport (unrated) 1.625% July 2024s at 210bp and 2.125% July 2027s at 228bp.

SIGNS OF RECOVERY

Moody’s recently affirmed ACA’s Baa2 and Azzurra’s Baa3 ratings (negative) after placing them on watch for a downgrade. The decision to maintain the current ratings was driven by the measures the company had taken to secure its financial position and liquidity, as well as signs of a recovery in the sector.

The agency also observed that Azzurra has already received approvals to waive its step-down net debt/Ebitda financial covenant, which would have otherwise been breached, until the end of 2020. ACA’s shareholders, meanwhile, have committed to provide timely and adequate support if needed.

The top shareholders are a consortium consisting of Atlantia, Aeroporti de

Roma, the Principality of Monaco and EDF Invest.

Airport issuers have periodically tested the bond market since April to raise liquidity when revenues have been severely depressed. ACA experienced a traffic decline of 99% in April and May, according to Moody’s calculations.

The industry is currently showing some signs of recovery. European airlines are expecting to operate 70%–90% of their network after the summer, said ACA in an investor presentation.

STERLING

▲ ENW FLICKS THE SWITCH ON STERLING RETURN

Infrequent issuer **ELECTRICITY NORTH WEST** returned to opco issuance for the first time in more than a decade last Wednesday, funding in the sterling market to refinance a 2021 maturity.

The UK utility, which issued via its funding vehicle ENW Finance, is the energy distribution network operator for the North West of England, supplying electricity to five million customers.

With limited capital markets funding requirements, the issuer is a rare beast in the bond market.

“Out of the operating company, they [last issued] a £200mm 6.125% due July 2021 in 2009. This *new* bond is effectively to refinance the 2021 maturity,” said a banker.

The mandate for the new July 2030s was publicly announced on Monday, and on Wednesday leads *HSBC* and *Santander* offered the paper at IPTs of the 145bp area over Gilts. The spread was fixed at 125bp and the deal was sized at £300m.

On why it chose last week to tap the market, ENW has a treasury policy of

ALL INV-GRADE US CORPORATE BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	81	19,241.80	13.1
2	Bank of America	69	16,503.13	11.2
3	Morgan Stanley	48	13,906.37	9.5
4	Barclays	39	9,652.80	6.6
5	Citigroup	47	9,644.60	6.6
6	Wells Fargo	50	8,668.69	5.9
7	Goldman Sachs	36	8,268.01	5.6
8	Mizuho	28	5,798.24	3.9
9	Sumitomo Mitsui	19	4,798.34	3.3
10	MUFG	26	4,650.45	3.2
	Total	153	147,037.72	

Excluding equity-related debt, ABS/MBS, all foreign issues, global issues and non corporates.

Source: Refinitiv

SDC code: F6a

ALL US INVESTMENT GRADE CORPORATE DEBT

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	492	162,223.04	12.7
2	Bank of America	465	152,105.28	11.9
3	Citigroup	385	123,021.88	9.6
4	Morgan Stanley	290	98,180.96	7.7
5	Goldman Sachs	271	93,829.74	7.3
6	Wells Fargo	278	92,141.24	7.2
7	Barclays	194	58,759.91	4.6
8	Deutsche Bank	129	40,956.36	3.2
9	Mizuho	166	38,631.99	3.0
10	RBC	155	37,117.21	2.9
	Total	908	1,277,953.22	

Source: Refinitiv

SDC code: F9

ALL CORPORATE BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total €(m)	Share (%)
1	BNP Paribas	171	31,180.29	9.2
2	Deutsche Bank	102	23,487.75	7.0
3	HSBC	127	23,104.32	6.8
4	Barclays	84	19,413.31	5.7
5	Citigroup	99	18,841.28	5.6
6	Bank of America	90	18,522.73	5.5
7	SG	107	18,019.47	5.3
8	JP Morgan	101	16,785.98	5.0
9	Credit Agricole	90	15,316.96	4.5
10	UniCredit	87	13,790.55	4.1
	Total	359	337,784.14	

Excluding equity-related debt. FIGs, ABS/MBS.

Source: Refinitiv

SDC code: N8

refinancing opco debt at least 12 months in advance of maturity.

Although at opco level the utility has not sold bonds since 2009, the holding company, North West Electricity Networks, did issue a £180m 5.875% June 2021 in 2013.

ENW is rated BBB+/A– (both stable) by S&P and Fitch, and the company's licence requires it to maintain its investment-grade credit rating.

The impact of Covid-19 on the business has been limited and the short-term reduction in cashflows because of less demand for energy during the lockdown will not have a lasting economic impact, said the issuer in an investor presentation.

ENW is only the second corporate issuer of a sterling benchmark this month, and although June did see a pick-up in activity, it is a market that continues to be dominated by domestic names.

"The recovery in sterling volumes has certainly been much slower. Typically, what works and what you see most of is the relatively safe, utility-type names that need sterling," said a second banker.

ALL INVESTMENT-GRADE BONDS IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total £(m)	Share (%)
1 BNP Paribas	258	79,545.68	8.2
2 JP Morgan	221	68,567.79	7.1
3 HSBC	235	63,708.36	6.6
4 Credit Agricole	207	60,866.72	6.3
5 Barclays	186	58,086.89	6.0
6 Deutsche Bank	189	55,651.19	5.7
7 UniCredit	182	51,863.18	5.3
8 SG	180	51,732.73	5.3
9 Citigroup	138	45,825.13	4.7
10 Bank of America	156	43,379.67	4.5
Total	997	971,487.32	

Excluding ABS/MBS, equity-related debt.

Source: Refinitiv

SDC code: N9

ALL INTERNATIONAL STERLING BONDS

EXCLUDING SECURITISATIONS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total £(m)	Share (%)
1 HSBC	63	10,744.98	12.0
2 NatWest Markets	57	10,600.98	11.8
3 Barclays	66	9,786.42	10.9
4 RBC	32	7,701.41	8.6
5 Citigroup	25	5,780.19	6.4
6 Lloyds Bank	23	5,694.08	6.3
7 Bank of America	26	5,351.09	6.0
8 BNP Paribas	21	4,699.73	5.2
9 Deutsche Bank	20	4,545.34	5.1
10 TD Securities	16	3,462.48	3.9
Total	152	89,866.32	

Including preferreds. Excluding equity-related debt.

Source: Refinitiv

SDC code: K05a

"For other issuers, the lower level of liquidity [than euros] and the lower certainty of a successful execution is off-putting."

BACK TO UNI

Although the breadth of issuers on offer in the sterling market has been limited, the

UNIVERSITY OF LEEDS also raised its head above the parapet last week, adding a £50m tap to its 3.125% December 2050s.

University issuers have been a relative rarity in the bond market. The last name to tap the primary was Oxford University, when in January it added £250m to its 2.544% December 2117s. No universities issued in 2019, according to Refinitiv data.

The tap from Leeds came at a spread over Gilts of 85bp and took the total deal size to £300m.

NON-CORE CURRENCIES

PORT OF BRISBANE EXTENDS CURVE

PORT OF BRISBANE, acting through financing entity QPH Finance, rated BBB (S&P), raised A\$500m (US\$354m) from a heavily

ALL CORPORATE BONDS IN STERLING

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total £(m)	Share (%)
1 Barclays	24	2,743.53	14.8
2 HSBC	22	2,302.71	12.4
3 NatWest Markets	18	1,595.84	8.6
4 BNP Paribas	15	1,547.45	8.3
5 JP Morgan	9	1,480.43	8.0
6 Citigroup	9	1,086.38	5.9
7 RBC	9	901.03	4.9
8 Goldman Sachs	6	877.10	4.7
9 Lloyds Bank	9	847.37	4.6
10 Bank of America	7	707.97	3.8
Total	45	18,564.59	

Source: Refinitiv

SDC code: N8a

ALL SWISS FRANC BONDS INCLUDING

SECURITISATIONS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total SFr(m)	Share (%)
1 Credit Suisse	88	11,328.2	31.2
2 UBS	69	7,863.0	21.6
3 ZKB	42	5,822.2	16.0
4 Verband	15	5,084.5	14.0
5 Raiffeisen Schweiz	28	2,737.8	7.5
6 Deutsche Bank	9	1,357.6	3.7
7 Basler KB	7	501.0	1.4
8 Commerzbank	4	373.2	1.0
9 BNP Paribas	5	365.4	1.0
10 Luzerner KB	2	281.3	0.8
Total	145	36,342.4	

Including preferreds. Excluding equity-related debt.

Source: Refinitiv

oversubscribed seven and 10.5-year senior secured MTN offering last Wednesday.

Port of Brisbane has been largely unscathed by the coronavirus pandemic, beyond a small decline in trade flows during the February–May period.

Its revenues in the first 11 months of the 2019/20 fiscal year actually rose slightly versus the same period a year earlier, noted Peter Block, head of corporate origination at lead manager Westpac.

"What's not to like about Port of Brisbane? It's a defensive, well-diversified, high-quality business with strong Triple B credit metrics and a history of successfully issuing in the Australian dollar market," Block said.

In addition to its trading operations, Port of Brisbane has a large property portfolio, which it leases out to businesses around the port.

Lead managers ANZ, MUFG and Westpac secured a combined order book of more than A\$2.75bn, of which 57% was drawn by the longer-dated offering.

This demand enabled the leads to price the A\$200m 2.30% seven-year and A\$300m 2.85% 10.5-year notes well inside 210bp area and 240bp area guidance at asset swaps plus 180bp and 205bp, flat or slightly wide of its existing curve.

Asset managers bought 75% of the seven-year, with banks buying 15%, middle market accounts 4%, private banks 3% and others 3%. Local accounts were allotted 77% and offshore buyers 23%.

Asset managers took a larger 83% chunk of the 10.5-year, banks and private banks 8%, insurance companies 5% and others 4%. Domestic investors took 85% and offshore investors 15%.

Port of Brisbane previously sold A\$250m of seven-year MTNs in May 2016 and a A\$200m seven-year print in June 2014. Its debut A\$300m seven-year MTN issue made in July 2013 matures on July 29.

AUSGRID PLANS LOCAL RECONNECTION

AUSGRID FINANCE, rated Baa1/BBB

(Moody's/S&P), has mandated MUFG, NAB and UBS to arrange investor update calls on July 27 for a potential 6.5-year fixed-rate and/or shorter-dated floating-rate Australian dollar senior secured bond offering.

The Australian energy infrastructure company debuted in the local market in October 2017 with a domestic corporate record A\$1.2bn (US\$850m) dual-tranche seven-year MTN issue.

The New South Wales government holds a 49.6% interest in Ausgrid, while a consortium of IFM Investors and AustralianSuper controls the remaining 50.4%.

FIG

US DOLLARS

UBS UNCOVERS DEEP DEMAND FOR US DOLLAR AT1

UBS GROUP tapped deep latent demand for US dollar Additional Tier 1 paper with a post-results US\$750m issue on Wednesday, which completed its refinancing of a bond issue callable in March.

Sole bookrunner UBS marketed the US\$750m no-grow Reg S perpetual non-call six-year with initial price thoughts of 5.75% area. The price was ultimately set at 5.125% with books over US\$5.75bn.

A banker close to the deal said the choice of currency meant UBS could tap into latent demand for US dollar AT1 paper. Investors are expecting large US dollar deals from G-SIBs later in the year, he said.

US dollar AT1s have been in relatively short supply, with the bulk of recent issuance coming in euros. UBS's deal was the first AT1 in Reg S US dollar format since February, when ING sold a US\$750m issue.

A book that was more than seven times subscribed allowed UBS to price the deal with no new issue concession, based on the bank's secondary curve.

Some bankers said the deal landed flat to fair value, whereas others saw it pricing around 12.5bp through.

The new issue completes the refinancing of UBS's US\$1.5bn 6.875% AT1, which comes up for call in March 2021.

The upcoming call was already partially refinanced through recent AT1s issued in Australian dollars and Singaporean dollars, hence the latest trade's capped size and the use of Reg S-only format rather than 144A format.

ALL FINANCIAL INSTITUTION BONDS IN EUROS BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 Credit Agricole	47	14,024.67	10.5
2 SG	33	9,729.45	7.3
3 JP Morgan	50	8,203.06	6.1
4 Natixis	28	7,731.04	5.8
5 Deutsche Bank	39	7,726.26	5.8
6 Barclays	35	7,617.87	5.7
7 BNP Paribas	28	7,017.54	5.3
8 UniCredit	30	5,563.86	4.2
9 HSBC	35	5,554.38	4.2
10 UBS	24	4,086.92	3.1
Total	217	133,472.04	

Including banks, insurance companies and finance companies. Excluding equity-related and covered bonds. Excluding publicly owned institutions.

Source: Refinitiv

SDC code: N11

The deal came soon after UBS released its second-quarter results on Tuesday, reporting earnings of US\$1.23bn, down 11% year-on-year but better than forecast.

The bank's profits and relatively low loan impairments helped it build its capital by US\$1.5bn over the quarter, lifting its common equity Tier 1 ratio to 13.3% by the end of June.

This has raised hopes of the bank restarting its share buybacks and dividends.

Austrian lender RBI was also in the market on Wednesday, with a €500m AT1 that was launched at 6% with pre-reconciled books over €1.6bn (see separate story).

The timing of the deals, coming as the market slowed into the summer period, surprised some market participants.

Bankers said the two trades show that demand for risk remains unusually high and that issuance may not follow the usual summer patterns in a year so heavily disrupted.

"It's interesting to see the trend continuing of banks post their results looking to raise Tier 1 capital rather than any kind of liquidity," said a syndicate banker away from the deals.

"This is due to the fact the market's risk appetite is still extremely high and that it is a little bit easier for people – who might not be in the office but still have access to better systems than they ordinarily do on vacation – to make more complex investment decisions than might otherwise be the case."

Bankers added that other issuers monitoring the market could take encouragement.

"AT1s are fairly big undertakings and fairly strategic, so they're not really done on a whim," said a second syndicate banker away from the deal. "But if some issuers were weighing doing one before the end of July or in September, then this can definitely help to accelerate their plans."

ALL SUBORDINATED FINANCIAL INSTITUTION BONDS (ALL CURRENCIES) BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Credit Agricole	12	3,753.19	10.4
2 Citigroup	20	3,697.65	10.3
3 JP Morgan	22	3,124.11	8.7
4 Bank of America	20	3,030.66	8.4
5 UBS	11	2,464.25	6.8
6 HSBC	17	2,447.88	6.8
7 Barclays	15	2,089.96	5.8
8 Morgan Stanley	14	1,835.89	5.1
9 Goldman Sachs	10	1,430.75	4.0
10 Deutsche Bank	9	1,132.22	3.1
Total	57	35,993.29	

Source: Refinitiv

SDC code: J3a

BOFA BRINGS NEW BOND IN ALREADY BUSY YEAR

BANK OF AMERICA priced a US\$4.75bn two-part bond last Monday for its eighth deal of the year, adding to what has already been a hefty amount of supply from US banks in 2020.

The new transaction lifted BofA's primary bond supply for the year to US\$26.1bn, pushing it past the US\$23.7bn it raised during the whole of 2019.

The deal was the first, and so far only, bond offering from the country's big six banks following second-quarter earnings and brought total issuance from US domestic banks to US\$166.55bn so far in 2020, up 66% from the same period last year, according to IFR data.

BofA, rated A2/A-/A+, priced a US\$2.75bn 11-year non-call 10 bond, while also adding US\$2bn in a tap of its 2.676% 21-year non-call 20 that was priced last month.

Order books built to US\$9.2bn across the tranches, which allowed the spreads to be tightened 10bp–17bp from initial price thoughts.

The 11NC10 launched at 128bp over Treasuries, following guidance at the 130p area (+/-2bp), while the spread on the tap came in at 135bp over. Initial price thoughts on both fixed-to-float notes were 145bp area.

CreditSights saw fair value at around 120bp over Treasuries on the new 11NC10s, comparing them to the existing 2.592% April 2031s, which had been trading at plus 118bp the previous Friday, according to MarketAxess data.

Meanwhile, the tap came some 9bp over secondary levels, where the research firm spotted the bond trading at a G-spread of 126bp.

Bank of America's two-part bond came on the heels of better-than-expected earnings the previous week, which saw the big six US banks setting aside large sums for future loan losses, but also generating big gains

ALL COVERED BONDS (ALL CURRENCIES) BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Credit Suisse	23	8,700.90	7.1
2 Barclays	39	8,355.15	6.9
3 BNP Paribas	30	6,739.86	5.5
4 HSBC	31	6,537.61	5.4
5 Credit Agricole	26	6,285.47	5.2
6 Commerzbank	24	5,180.70	4.3
7 Natixis	24	5,107.68	4.2
8 ING	23	4,761.14	3.9
9 NatWest Markets	15	4,050.06	3.3
10 Santander	16	3,889.30	3.2
Total	143	121,733.51	

Source: Refinitiv

SDC code: J15a

from syndication fees in the red-hot bond market.

Although BofA reported net income of US\$3.5bn, it only set aside US\$5.1bn in provisions, which looked low compared with Citigroup's US\$7.9bn or JP Morgan's over US\$10bn provision in the second quarter.

"Bank of America left investors wondering if they had taken enough provisions in 2Q20, as total credit costs and reserving efforts came in well below peers," Dan Bruzzo, managing director at Amherst Pierpont, said in a report.

"Bottom line, Bank of America's balance sheet and capitalisation remain well positioned to weather the near-term economic downturn and further deterioration in credit, should management's efforts to build out reserves prove insufficient relative to peers."

EUROS

» RBI FILLS AT1 BUCKETS WITH WELL-COVERED OFFERING

RAIFFEISEN BANK INTERNATIONAL strengthened its capital base and in the process underlined the strength of the Additional Tier 1 market with a €500m offering last Wednesday.

Leads *Barclays, Goldman Sachs, JP Morgan, RBI* and *UBS* opened books for the €500m no-grow perpetual non-call December 2026 AT1 with initial price thoughts of the 6.5% area.

Guidance was set at 6.125% (+/-12.5bp), before the deal was launched at 6% with books exceeding €1.6bn, pre-reconciliation.

Bankers said that to attract such demand for a euro AT1 against a relatively weak wider market backdrop in late July was an impressive result for RBI and demonstrated the strength of the AT1 sector.

"In the euro [AT1 market] we had a busy run of trades pre-blackouts," said a banker at one of RBI's leads.

"It shows the maturity of the euro market that it was able to take down that depth of supply. There's been a big growth in real money Continental accounts buying AT1, and a large part of the investor base are happy buying euros, although it is a slightly smaller investor base than US dollars."

The deal is RBI's third AT1, alongside a €650m 6.125% perpetual non-call December 2022, bid at 6.098% at Wednesday's open, and a €500m 4.5% perpetual non-call June 2025, bid at 6.797%. The latter trades particularly wide as it has a low back-end reset spread.

Adjusting for that, and taking into account similarly rated AT1s from other issuers, bankers saw fair value for the new issue at 5.875%-6%.

"For a €500m trade this was priced to precision, very close to fair value," said a second banker at one of the leads.

The deal's capped size was crucial in giving the issuer additional pricing leverage, bankers said.

"It wasn't that juicy from the outset, but if you only need €500m it doesn't have to be," said a syndicate banker away from the leads.

The Austrian bank said the deal would fill its Pillar 1 and Pillar 2 AT1 buckets and increase its buffer over its maximum distributable amount (MDA) trigger.

RBI's MDA buffer stood at 1.83% as of the end of the first quarter. Incorporating a €500m Tier 2 it sold on June 9 and the new €500m AT1, RBI said the buffer will rise to 2.38%.

The new issue, which was marketed in investor calls on Tuesday, came ahead of the release of RBI's second-quarter results on August 11.

NON-CORE CURRENCIES

» UBS AUSTRALIA CASHES IN ON ABSENCE OF LOCAL BANKS

UBS, AUSTRALIA BRANCH (Aa3/A+/AA-) became the latest beneficiary of the lack of supply from major banks as it brought the largest financial transaction since the coronavirus outbreak began in Australia.

Last Thursday's three-part sale of senior unsecured MTNs raised an impressive A\$2.75bn (US\$1.95bn) via joint leads ANZ, CBA, NAB, UBS and Westpac, with all tranches pricing well inside guidance.

There has been no Australian major bank issuance in senior unsecured format since January 13, thanks mainly to the Reserve Bank of Australia's A\$90bn Term Funding Facility, which provides funding for three years at a fixed interest rate of just 0.25%.

"The absence of major bank senior unsecured issuance leaves much liquidity looking for a home, a dynamic that names like UBS, with an established local footprint and Australian dollar issuance track record, are well placed to benefit from," said Tim Galt, head of Asia-Pacific DCM syndicate at UBS.

An tranche of A\$1bn of three-year floating-rate notes attracted a final order book of more than A\$1.23bn and was priced at three-month BBSW plus 67bp, inside guidance in the 75bp-80bp area.

A\$1.25bn of five-year FRNs secured orders in excess of A\$2.2bn and were priced tighter than guidance in the 95bp-100bp area at three-month BBSW plus 87bp.

And A\$500m of 1.2% fixed-rate five-year notes, with more than A\$925m of orders, were priced at 99.988 to yield 1.2025%, 87bp wide of asset swaps.

Australian investors bought 87% of the three-year floaters with Asia taking 11% and EMEA 2%. Banks picked up 66%, asset managers 27%, middle market accounts and private banks 6%, and others 1%.

Of the five-year FRNs, Australia took 87%, Asia 12% and EMEA 1%. Asset managers took 50%, banks 26%, official institutions 16%, middle market accounts and private banks 7%, and others 1%.

Australian investors bought 68% of the fixed-rate five-years, Asia 26%, EMEA 5% and others 1%. Asset managers received 57%, banks 37%, middle market accounts and private banks 5%, and others 1%.

Pricing compares with the current hypothetical clearing rates for three and five-year major bank notes of around 50bp and 68bp, according to syndication desks.

Pricing was wide of UBS's US dollar curve and comparable with its euro curve, according to Galt.

Since the market reopened in April, the Australian branches of Credit Suisse, SMBC and Societe Generale have raised A\$1.75bn, A\$2.4bn and A\$600m in senior unsecured format, while BPCE, Canadian Imperial Bank of Commerce and DBS Group have issued A\$650m, A\$800m and A\$730m of senior unsecured Kangaroos.

HIGH-YIELD

UNITED STATES

» HIGH-YIELD BOND SPREADS GRIND TIGHTER DESPITE CONCERNS

US high-yield bond spreads have rallied back to early March levels, as technicals outweigh concerns over rising Covid-19 cases and growing tensions between the US and China.

Over the 10 trading days through to Wednesday last week average high-yield spreads tightened by 86bp to 528bp over Treasuries, according to ICE BofA data.

This follows a period of around six weeks when spreads hovered in a range around 600bp as investors weighed up bleak economic outlooks against positive technical factors.

Explaining why junk bond spreads have taken another leg tighter, buy-side sources point to several factors.

These include ongoing Federal Reserve support, the likelihood of more fiscal stimulus, positive vaccine news, strong inflows coming into high-yield funds and ETF buying, as well as a general reach for yield.

“It’s kind of a spread compression race at this moment,” said one high-yield bond trader. “The Fed is supporting credit markets and investment-grade bonds have ripped tighter, leaving a gap between IG and high-yield. A lot of investors are looking to compress that relationship.”

The gap between average Double B and Triple B bonds stood at 180bp on Wednesday, having tightened by 64bp over the prior 10 days.

A slowdown in primary market volume after record new supply in June, as well as maturities and coupon payments, are providing technical support for the market, said the trader.

Still, investors remain hesitant of taking on too much risk given the still concerning outlook for the pandemic, economic recovery and other headline risks.

Indeed, the recent rally in high-yield has been driven by demand for higher-quality paper. Average Double B bonds have delivered total returns of 2.7% over the past month, compared with gains of just 0.1% in Triple C bonds.

“The market is getting very crowded, and the performance has been in Double Bs – well capitalised companies that can

withstand a recession,” said the trader. “By and large, Triple Cs have underperformed and there are still sectors impacted by Covid trading considerably wide.”

▶ **TIMESHARE COMPANIES GET MIXED RECEPTION**

Two timeshare resort operators were in the market selling high-yield bonds last week, getting a mixed reception as investors weighed up how strongly demand for travel and vacations will recover.

On Monday, **WYNDHAM DESTINATIONS** offered its first bond issue of the year to boost liquidity and take out debt that matures early next year.

The timeshare company priced a US\$650m six-year non-call life senior secured note offering at 6.625%, led by *Bank of America*.

The bond issue was upsized from an initial US\$500m and leads were also able to bring pricing inside talk of 6.75% area. The notes then rallied to 102 in the secondary market.

The deal, which carried Ba3/BB–/BB+ ratings, was the company’s first in the corporate bond market since December

last year, when it priced a US\$350m 10-year senior secured bullet note issue at 4.625%.

Wyndham was followed on Wednesday by **DIAMOND RESORTS INTERNATIONAL**, which came to the market offering a B3/B– US\$525m six-year non-call two senior secured note offering, looking to pay down a portion of its 7.75% first lien secured notes due 2023, as well as a portion of its Term Loan B due 2023 and to put cash on the balance sheet.

The Diamond Resorts deal, led by RBC, had a slower progression through the primary market.

As of Friday morning, it was yet to be priced, having set talk of 9.50% area on Wednesday, although a source close to the deal denied on Thursday evening that it had been pulled.

Wyndham was seen by investors as the stronger of the two names.

“You’ve got some really well-known, well-run names that the market feels strongly confident in and then you have Diamond Resorts coming to the market, which has always had a bit of a cloud over it, so it will be interesting to see,” said a high-yield trader after the Diamond deal was announced.

As well as lower ratings, the trader pointed to accusations of aggressive sales tactics at Diamond, which were highlighted by a New York Times investigation in 2016, before the company was acquired by private equity firm Apollo.

“It’s lower rated because of its balance sheet, but it’s weaker [than Wyndham] across the board,” said a high-yield portfolio manager. “Worse management, worse business model, less scale.”

He also said that Wyndham had been able to pitch itself as a “staycation” play more effectively than Diamond, although according to Moody’s, 75% of Diamond Resorts customers also live within driving distance of one of the company’s resorts.

ALL US\$ DENOMINATED HIGH-YIELD BONDS

BOOKRUNNERS – 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	200	26,258.62	10.8
2	Bank of America	195	23,562.72	9.6
3	Citigroup	150	18,139.60	7.4
4	Goldman Sachs	153	17,743.21	7.3
5	Barclays	144	16,984.59	7.0
6	Morgan Stanley	102	14,299.79	5.9
7	Wells Fargo	110	11,986.97	4.9
8	Deutsche Bank	126	11,775.78	4.8
9	Credit Suisse	119	11,531.99	4.7
10	RBC	72	7,130.82	2.9
	Total	375	244,242.01	

Including US domestics, Euro, foreign, globals. Excluding equity-related debt.
Source: Refinitiv SDC code: B5

ALL ASIAN HIGH-YIELD ISSUERS

1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Credit Suisse	37	3,328.35	9.4
2	UBS	30	2,500.11	7.0
3	Citic	35	1,939.92	5.5
4	Bank of America	13	1,912.72	5.4
5	Haitong Secs	47	1,834.21	5.2
6	Goldman Sachs	18	1,671.81	4.7
7	Guotai Junan Secs	37	1,563.94	4.4
8	Deutsche Bank	29	1,439.13	4.0
9	Morgan Stanley	18	1,395.87	3.9
10	Bank of China	22	1,374.26	3.9
	Total	87	35,592.49	

Excluding equity-related debt.
Source: Refinitiv SDC code: B06c

ALL NON-DOLLAR DENOMINATED HIGH-YIELD BONDS

1/1/2020 TO DATE

	Managing bank or group	No of issues	Total €(m)	Share (%)
1	Citigroup	33	3,214.18	7.4
2	Deutsche Bank	30	3,143.12	7.2
3	JP Morgan	34	2,993.68	6.8
4	Barclays	28	2,937.50	6.7
5	BNP Paribas	29	2,642.32	6.0
6	Credit Suisse	21	2,545.99	5.8
7	Goldman Sachs	29	2,497.37	5.7
8	Bank of America	24	2,281.13	5.2
9	HSBC	29	2,034.99	4.7
10	UniCredit	19	1,949.87	4.5
	Total	80	43,728.22	

Excluding equity-related debt.
Source: Refinitiv SDC code: B6

ALL EUROPEAN HIGH-YIELD ISSUERS

1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Citigroup	41	5,561.36	9.3
2	Deutsche Bank	33	4,380.16	7.3
3	Barclays	31	4,129.00	6.9
4	JP Morgan	37	3,854.15	6.5
5	Credit Suisse	25	3,682.50	6.2
6	BNP Paribas	34	3,544.57	5.9
7	Goldman Sachs	30	3,181.96	5.3
8	Bank of America	23	2,753.93	4.6
9	HSBC	28	2,279.15	3.8
10	UniCredit	20	2,242.99	3.8
	Total	88	59,693.85	

Excluding equity-related debt.
Source: Refinitiv SDC code: B06c

SUMMER HOLIDAYS

The two timeshare bond offerings came as the sector experiences what S&P described as an unprecedented decline in revenues during the Covid-19 pandemic.

Wyndham was previously guiding for free cashflow of US\$100m–\$150m, but has since withdrawn that and is now aiming to be cashflow-positive in 2020.

New booking activity is in line with previous years, the company said, but cancellations have remained higher for longer than previously expected, reflecting consumer caution around travel.

According to S&P, the bond offering will give Wyndham adequate liquidity for the next 24 months.

S&P noted that leverage at Diamond is expected to soar in 2020 to an unsustainable level of around 10x–15x debt to Ebitda, having entered the pandemic with already high leverage of around 7.7x.

Diamond was looking to take care of 2023 debt maturities ahead of time.

It announced the results of a US\$500m tender offer for its 7.75% 2023 notes on Wednesday. Holders of around 92% of the principal amount of the notes accepted the terms of the tender, which offered them a consideration of US\$1,002.50 for every US\$1,000 principle of notes.

S&P said it considered the Diamond trades to be “opportunistic treasury management” rather than distressed transactions because the company still has excess liquidity and the debt does not mature until 2023.

EUROPE/MIDDLE EAST/AFRICA

DEBT COLLECTOR INTRUM LANDS REFI BOND

Swedish debt collector **INTRUM** landed an upsized €600m five-year non-call two senior unsecured bond on Friday to refinance some of its debt.

The company priced the bonds at 4.875% via lead-left bookrunner *Morgan Stanley*.

Proceeds from the deal, which is also being run by bookrunners and Nordic co-ordinators *Nordea* and *SEB*, will partially refinance the company’s €750m senior 2.75% bonds due 2022.

Intrum (Ba2/BB/BB) held investor calls on Thursday to market a €500m deal. Price talk was 4.875% area.

Intrum’s 3.125% July 2024s were seen bid around 4% pre-announcement, according to MarketAxess data. Its 3.50% July 2026s were seen at 4.70%.

The deal came after Intrum reported a core profit for the second quarter that matched a preliminary reading helped by cost control and the gradual reopening of economies.

However, despite the market’s enthusiasm for the numbers, Lucror Analytics analysts said Intrum’s results should be viewed with a degree of caution, noting that second-quarter results tend to be seasonally better than the rest of the year.

“We believe that the H2 2020 outlook for Intrum is weaker than the market appreciates at this point, and that management is keen to opportunistically tap the market,” wrote analysts.

Intrum’s transaction was aimed at proactively addressing its debt maturity profile, they said.

Performance from debt collectors has been mixed during the coronavirus crisis,

said a source familiar with the deal.

“Some companies have been negatively impacted because they have found it more difficult to collect the cash from their portfolio of debt – either logistically or because it is difficult to have people on the ground to collect cash from people in debt,” said the source.

“Meanwhile other companies have been affected by higher-than-expected default rates on their portfolios of debt. But there hasn’t been major widening on debt collector bonds.”

The coronavirus crisis more generally is likely to give debt collectors the opportunity to build their portfolios if they have sufficient capacity – although others should focus more on deleveraging, said the source.

STRUCTURED FINANCE

EMEA MBS

COVENTRY BREAKS NEW GROUND WITH REVAMPED MASTER ISSUER

COVENTRY BUILDING SOCIETY has sold the first deal from a new type of UK RMBS master issuer vehicle that bankers say could prove attractive to a range of other originators.

The structure is a streamlined version of the traditional master trust, where complexity and costs have in the past prevented smaller but regular issuers from joining the master trust club of Lloyds, Santander, Nationwide and Clydesdale.

And if market rumours are correct, that before the coronavirus pandemic Barclays and HSBC were considering setting up UK RMBS programmes too, the streamlined master issuer format could have been in those banks’ plans too.

As well bringing a new structure, Coventry also became the first from the UK’s mainstream bank and building society sector to sell an RMBS since the coronavirus crisis began.

The deal was very well received by investors, printing at the same level as established issuer Nationwide in January.

“It’s great to get such a positive result for the Society,” Lyndon Horwell, treasurer at Coventry Building Society, told IFR.

“Being the first in this modern master issuer format, and for our first deal back in the RMBS market, we are really happy with the transaction and the response from investors,” he said.

Coventry sold a £350m 2.51-year Triple A tranche at Sonia plus 47bp, where the tranche was around 3.6 times covered. Initial price thoughts were low 50s.

“Based on what we were seeing from investors we knew the transaction was going to work in the low 50s, but we had in mind a four-handle as a stretch outcome and are delighted to have made that work,” said John Millward, managing director in HSBC’s structured finance group. *HSBC* and *Lloyds* were joint arrangers and joint leads.

Millward pointed to the level of support that stuck with the transaction as spreads tightened and the deal grew to £350m, slightly larger than initially anticipated.

“To be actually flat to secondary fair value on established master trusts, with no premium of any description, in this market and at a pricing level that is in line with the tightest print of the last two years, is a pretty amazing outcome,” Millward said.

As with other banks and building societies, Coventry has cheaper access to the Bank of England’s TFSME scheme, but it chose to go ahead with the RMBS issue.

“Being one of the only prime issues in the market gave us additional traction going out and talking to investors about the programme,” Horwell said. “We wanted to use the opportunity to tell them what we’re trying to achieve in the longer term – it was about more than just this one deal.”

The nature of the programme indicates Coventry’s intent to become a regular RMBS issue.

“Our business has grown consistently over many years, and we have diversified our funding sources with senior unsecured and covered in both euros and sterling. It is important for us to be a consistent issuer, issuing around once every 12-18 months, and we felt we needed to plan this level for RMBS as well,” Horwell said.

The vehicle is called **ECONOMIC MASTER ISSUER**, a nod to Coventry’s roots as the Coventry Permanent Economic Building Society, established in 1884.

One key difference with previous master trusts is that the new vehicle is structured with just one SPV, not the three that are typically used.

“We were not trying to reinvent the wheel with regards to the core cashflow mechanics,” said Dmitriy Levitski, director in Lloyds’ securitised products group.

“We took the existing master trust structures that work well and which we know investors like, and tried to optimise that set-up in the context of nearly a generation of regulatory and ratings agency changes.”

The last new UK mortgage master trust was Nationwide’s Silverstone, set up in 2008.

“There are inefficiencies around existing master trust structures such as encumbrance of the seller share or the difficulty sometimes of structural changes

NEW ASSET-BACKED SUMMARY DETAILS: WEEK ENDING 24/7/2020

Issuer	Amount (m)	WAL	Coupon (%)	Bookrunner(s)	Rating	Asset type
Aqueduct European CLO 5 2020 DAC	€234	4.2	E+145bp	BNP Paribas	NR/AAA/AAA	CLO
Aqueduct European CLO 5 2020 DAC	€25	0.6	E+200bp	BNP Paribas	NR/AA/AA	CLO
Aqueduct European CLO 5 2020 DAC	€15	0.6	2.45	BNP Paribas	NR/AA/AA	CLO
Aqueduct European CLO 5 2020 DAC	€30	6.6	E+280bp	BNP Paribas	NR/A/A	CLO
Aqueduct European CLO 5 2020 DAC	€24	6.8	E+380bp	BNP Paribas	NR/BBB-/BBB-	CLO
Aqueduct European CLO 5 2020 DAC	€20	7.3	E+602bp	BNP Paribas	NR/BB-/BB-	CLO
Aqueduct European CLO 5 2020 DAC	€10	7.7	E+727bp	BNP Paribas	NR/B-/B-	CLO
Aqueduct European CLO 5 2020 DAC	€36.1	-	-	BNP Paribas	NR/NR/NR	CLO
AFG 2020-1 Trust	A\$230	0.9	1mBBSW+95bp	NAB/ANZ	NR/AAA/AAA	RMBS
AFG 2020-1 Trust	A\$382.5	2.9	1mBBSW+145bp	NAB/ANZ	NR/AAA/AAA	RMBS
AFG 2020-1 Trust	A\$49	3.0	1mBBSW+205bp	NAB/ANZ	NR/AAA/AAA	RMBS
AFG 2020-1 Trust	A\$20.4	3.0	1mBBSW+250bp	NAB/ANZ	NR/AA/NR	RMBS
AFG 2020-1 Trust	A\$7.6	3.0	1mBBSW+320bp	NAB/ANZ	NR/A/NR	RMBS
AFG 2020-1 Trust	A\$4.2	3.0	1mBBSW+410bp	NAB/ANZ	NR/BBB/NR	RMBS
AFG 2020-1 Trust	A\$2.8	3.0	1mBBSW+650bp	NAB/ANZ	NR/BB/NR	RMBS
ARBYS 2020-1	US\$150	6.8	3.237	Barclays/BofA/Credit Suisse/MS/Wells Fargo	NR/BBB/NR	ABS
Azure Finance No.2 PLC	£126.421	1.44	SONIA+110bp	Citigroup/Deutsche Bank	Aaa/AAA/NR	ABS
Azure Finance No.2 PLC	£26.415	3.24	SONIA+225bp	Citigroup/Deutsche Bank	Aa1/A+/NR	ABS
Azure Finance No.2 PLC	£16.982	3.91	SONIA+300bp	Citigroup/Deutsche Bank	A3/BBB+/NR	ABS
Azure Finance No.2 PLC	£5.661	4.27	SONIA+450bp	Citigroup/Deutsche Bank	Ba1/BBB-/NR	ABS
Azure Finance No.2 PLC	£7.076	4.28	SONIA+550bp	Citigroup/Deutsche Bank	B1/B/NR	ABS
Azure Finance No.2 PLC	£6.132	4.28	SONIA+700bp	Citigroup/Deutsche Bank	Caa1/CCC+/NR	ABS
Azure Finance No.2 PLC	£12.265	0.58	SONIA+500bp	Citigroup/Deutsche Bank	Caa2/CCC/NR	ABS
BHG 2020-A	US\$113.230	1.57	2.560	Credit Suisse	NR/NR/NR	ABS
BHG 2020-A	US\$22.610	4.40	3.590	Credit Suisse	NR/NR/NR	ABS
BHG 2020-A	US\$23.770	5.22	5.170	Credit Suisse	NR/NR/NR	ABS
BMARK 2020-B18	US\$7.467	2.69	0.875	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$67.056	6.21	1.926	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$8.738	7.32	1.862	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$119.000	9.41	1.672	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$260.095	9.68	1.925	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$106.300	9.96	2.335	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AAA/AAA	CMBS
BMARK 2020-B18	US\$33.569	9.96	2.648	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/AA-/AA-	CMBS
BMARK 2020-B18	US\$34.687	9.96	-	Deutsche Bank/Citi/JP Morgan/Goldman Sachs	NR/A-/A-	CMBS
Cairn CLO XII DAC	€188	-	1mE+151bp	Credit Suisse	NR/AAA/AAA	CLO
Cairn CLO XII DAC	€38.5	-	1mE+230bp	Credit Suisse	NR/AA/AAA	CLO
Cairn CLO XII DAC	€24	-	1mE+300bp	Credit Suisse	NR/A/A	CLO
Cairn CLO XII DAC	€19.6	-	1mE+410bp	Credit Suisse	NR/BBB/BBB-	CLO
Cairn CLO XII DAC	€16	-	1mE+643bp	Credit Suisse	NR/BB-/BB-	CLO
Cairn CLO XII DAC	€7.75	-	1mE+755bp	Credit Suisse	NR/B-/B-	CLO
Chase Mortgage Reference Notes Series 2020-CL1	US\$147.180	5.19	1mUSL+225bp	JP Morgan	NR/NR/AA	RMBS
Chase Mortgage Reference Notes Series 2020-CL1	US\$30.037	5.19	1mUSL+250bp	JP Morgan	NR/NR/A	RMBS
Chase Mortgage Reference Notes Series 2020-CL1	US\$23.028	5.19	1mUSL+335bp	JP Morgan	NR/BBB/BBB	RMBS
Chase Mortgage Reference Notes Series 2020-CL1	US\$13.016	5.19	1mUSL+435bp	JP Morgan	NR/BB/BB	RMBS
Chase Mortgage Reference Notes Series 2020-CL1	US\$17.019	5.19	1mUSL+560bp	JP Morgan	NR/B/B	RMBS
Chase Mortgage Reference Notes Series 2020-CL1	US\$20.027	13.91	1mUSL+1,000bp	JP Morgan	NR/NR/NR	RMBS
CIM Trust 2020-J1	US\$307.500	4.96	2.50	BofA	Aaa/NR/NR	RMBS
CIM Trust 2020-J1	US\$37.263	4.96	3.00	BofA	Aa1/NR/NR	RMBS
Economic Master Issuer 2020-1	£350	2.51	SONIA+47bp	HSBC/Lloyds	Aaa/NR/AAA	RMBS
Elvet Mortgages 2020-1	£42.07	4.79	SONIA+225bp	Citigroup	NR/A-/A	RMBS
Elvet Mortgages 2020-1	£7.32	5.00	SONIA+265bp	Citigroup	NR/BBB/BBB+	RMBS
Elvet Mortgages 2020-1	£7.32	5.00	SONIA+445bp	Citigroup	NR/BB+/BB+	RMBS
Elvet Mortgages 2020-1	£10.98	-	-	Citigroup	NR/NR/NR	RMBS
FORDL 2020-B	US\$184	0.25	0.276	BNP Paribas/RBC CM/TD Securities/Barclays/DB	P1/A1+/NR	ABS

NEW ASSET-BACKED SUMMARY DETAILS: WEEK ENDING 24/7/2020 (CONTINUED)

Issuer	Amount (m)	WAL	Coupon (%)	Bookrunner(s)	Rating	Asset type
FORDL 2020-B	US\$415	0.97	0.500	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aaa/AAA/NR	ABS
FORDL 2020-B	US\$100	0.97	1mUSL+26bp	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aaa/AAA/NR	ABS
FORDL 2020-B	US\$455	1.76	0.620	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aaa/AAA/NR	ABS
FORDL 2020-B	US\$96	2.19	0.690	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aaa/AAA/NR	ABS
FORDL 2020-B	US\$86	2.32	1.000	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aa1/AA/NR	ABS
FORDL 2020-B	US\$65.85	2.43	1.700	BNP Paribas/RBC CM/TD Securities/Barclays/DB	Aa2/A/NR	ABS
Freddie Mac SPC K-F81	US\$378.375	6.45	3mUSL+36bp	Wells Fargo/Morgan Stanley	NR/NR/NR	CMBS
Freddie Mac SPC K-F81	US\$450	6.45	3mUSL+40bp	Wells Fargo/Morgan Stanley	NR/NR/NR	CMBS
Freddie Mac Sb76 Certificates	US\$53.255	4.1	0.83	Amherst Securities/Wells Fargo	NR/NR/NR	CMBS
Freddie Mac Sb76 Certificates	US\$125.17	4.1	1.030	Amherst Securities/Wells Fargo	NR/NR/NR	CMBS
Freddie Mac Sb76 Certificates	US\$120.155	5.5	1.190	Amherst Securities/Wells Fargo	NR/NR/NR	CMBS
Freddie Mac Sb76 Certificates	US\$89.35	6.8	1.130	Amherst Securities/Wells Fargo	NR/NR/NR	CMBS
Freddie Mac Spc Series K-112	US\$86.843	6.70	0.799	Barclays/Citigroup	NR/NR/AAA	CMBS
Freddie Mac Spc Series K-112	US\$963.3	9.76	1.311	Barclays/Citigroup	NR/NR/AAA	CMBS
Freddie Mac Spc Series K-112	US\$138.092	9.82	1.039	Barclays/Citigroup	NR/NR/NR	CMBS
Freddie Mac SPC Series K-J30	US\$90	3.51	0.526	JP Morgan/Morgan Stanley	NR/NR/NR	CMBS
Freddie Mac SPC Series K-J30	US\$240.125	6.90	1.252	JP Morgan/Morgan Stanley	NR/NR/NR	CMBS
Freed ABS Trust 2020-3FP	US\$114.72	0.61	2.400	Credit Suisse/SunTrust Robinson Humphrey	NR/NR/NR	ABS
Freed ABS Trust 2020-3FP	US\$44.68	1.69	4.180	Credit Suisse/SunTrust Robinson Humphrey	NR/NR/NR	ABS
Freed ABS Trust 2020-3FP	US\$38.65	3.01	6.960	Credit Suisse/SunTrust Robinson Humphrey	NR/NR/NR	ABS
GCAT 2020-NQM2	US\$149.299	2.34	1.555	Credit Suisse	NR/AAA/NR	RMBS
GCAT 2020-NQM2	US\$15.996	2.34	2.272	Credit Suisse	NR/AA/NR	RMBS
GCAT 2020-NQM2	US\$25.073	2.34	2.935	Credit Suisse	NR/A/NR	RMBS
GCAT 2020-NQM2	US\$12.252	3.97	3.589	Credit Suisse	NR/BBB/NR	RMBS
GOODG 2020-1	US\$274.261	6.57	IS+225bp	Deutsche Bank/Natixis	NR/NR/NR	ABS
GOODG 2020-1	US\$8.483	6.57	IS+285bp	Deutsche Bank/Natixis	NR/NR/NR	ABS
GOODG 2020-1	US\$35.342	6.57	IS+515bp	Deutsche Bank/Natixis	NR/NR/NR	ABS
Hayfin Emerald CLO IV DAC	€199.5	-	3mE+145bp	Goldman Sachs	Aaa/AAA/NR	CLO
Hayfin Emerald CLO IV DAC	€19	-	3mE+230bp	Goldman Sachs	Aaa/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€11.5	-	2.600	Goldman Sachs	Aaa/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€8	-	3mE+230bp	Goldman Sachs	Aaa/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€11	-	3mE+320bp	Goldman Sachs	NR/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€9	-	3mE+320bp	Goldman Sachs	Aaa/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€25.6	-	3mE+415bp	Goldman Sachs	NR/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€21.7	-	3mE+647bp	Goldman Sachs	NR/NR/NR	CLO
Hayfin Emerald CLO IV DAC	€7	-	3mE+796bp	Goldman Sachs	NR/NR/NR	CLO
JPMMT 2020-5	US\$256.692	4.94	3.000	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$171.500	4.94	2.500	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$76	2.75	3.000	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$20	2.75	2.500	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$17	11.51	3.000	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$15	11.51	2.500	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$15	4.94	1mUSL+100bp	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$88.697	4.94	3.000	JP Morgan	Aaa/NR/NR	RMBS
JPMMT 2020-5	US\$45.022	4.94	3.000	JP Morgan	NR/NR/NR	RMBS
KCOT 2020-2	US\$98	0.32	0.269	MUFJ/JP Morgan	P1/NR/F-1+	ABS
KCOT 2020-2	US\$159.05	1.36	0.410	MUFJ/JP Morgan	Aaa/NR/AAA	ABS
KCOT 2020-2	US\$159.05	2.78	0.590	MUFJ/JP Morgan	Aaa/NR/AAA	ABS
KCOT 2020-2	US\$51.01	3.74	0.734	MUFJ/JP Morgan	Aaa/NR/AAA	ABS
NAVSL 2020-F	US\$724.7	2.70	1.220	Barclays/BofA/JP Morgan/RBC CM	NR/AAA/AAA	ABS
NAVSL 2020-F	US\$56.1	7.38	2.690	Barclays/BofA/JP Morgan/RBC CM	NR/NR/NR	ABS
MSC 2020-HR8	US\$11.100	3.03	0.932	Morgan Stanley/Barclays	Aaa/NR/AAA	CMBS
MSC 2020-HR8	US\$16.500	7.26	1.925	Morgan Stanley/Barclays	Aaa/NR/AAA	CMBS
MSC 2020-HR8	US\$145.000	9.51	1.790	Morgan Stanley/Barclays	Aaa/NR/AAA	CMBS
MSC 2020-HR8	US\$311.068	9.71	2.041	Morgan Stanley/Barclays	Aaa/NR/AAA	CMBS
MSC 2020-HR8	US\$36.275	9.96	2.98	Morgan Stanley/Barclays	Aa2/NR/AAA	CMBS
MSC 2020-HR8	US\$36.276	10.04	2.704	Morgan Stanley/Barclays	NR/NR/AA-	CMBS
MSC 2020-HR8	US\$37.138	10.04	3.714	Morgan Stanley/Barclays	NR/NR/A-	CMBS
Polaris 2020-1	£294.545	2.31	SONIA+125bp	Citigroup/NAB/NatWest Markets	Aaa/AAA/NR	RMBS
Polaris 2020-1	£21.164	3.14	SONIA+200bp	Citigroup/NAB/NatWest Markets	Aa3/AA/NR	RMBS

NEW ASSET-BACKED SUMMARY DETAILS: WEEK ENDING 24/7/2020 (CONTINUED)

Issuer	Amount (m)	WAL	Coupon (%)	Bookrunner(s)	Rating	Asset type
Polaris 2020-1	£12.346	3.14	SONIA+250bp	Citigroup/NAB/NatWest Markets	A2/A/NR	RMBS
Polaris 2020-1	£7.054	3.14	SONIA+350bp	Citigroup/NAB/NatWest Markets	Baa3/BBB/NR	RMBS
Polaris 2020-1	£5.291	3.14	SONIA+550bp	Citigroup/NAB/NatWest Markets	Ba3/BB+/NR	RMBS
Polaris 2020-1	£3.527	3.14	SONIA+550bp	Citigroup/NAB/NatWest Markets	B3/BB/NR	RMBS
Polaris 2020-1	£9.7	-	SONIA	Citigroup/NAB/NatWest Markets	NR/NR/NR	RMBS
Resimac Trust Series 2020-1NC	A\$125	0.56	1mBBSW+850bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/BB/NR	RMBS
Resimac Trust Series 2020-1NC	A\$250	2.89	1mBBSW+515bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/BBB/NR	RMBS
Resimac Trust Series 2020-1NC	A\$55	2.89	1mBBSW+390bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/A/NR	RMBS
Resimac Trust Series 2020-1NC	A\$33.5	3.42	1mBBSW+290bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/AA/NR	RMBS
Resimac Trust Series 2020-1NC	A\$13.5	3.42	1mBBSW+190bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/AAA/AAA	RMBS
Resimac Trust Series 2020-1NC	A\$9.4	3.42	1mBBSW+95bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/AAA/AAA	RMBS
Resimac Trust Series 2020-1NC	A\$5.8	3.20	1mBBSW+165bp	Macquarie Bank/NAB/CBA/Deutsche Bank/Wells Fargo	NR/AAA/AAA	RMBS
SLST 2020-1	US\$547.745	5.15	0.201	Wells Fargo/JP Morgan	NR/NR/NR	RMBS
SLST 2020-1	US\$182.581	9.99	2.000	Wells Fargo/JP Morgan	NR/NR/NR	RMBS
STACR 2020-HQA3	US\$835	-	-	Citigroup/BNP Paribas	NR/NR/NR	RMBS
TAOT 2020-C	US\$337.25	0.18	0.202	SMBC Nikko/BNP Paribas/Mizuho/RBC CM	P1/CPA1/NR	ABS
TAOT 2020-C	US\$528.2	0.92	0.360	SMBC Nikko/BNP Paribas/Mizuho/RBC CM	Aaa/AAA/NR	ABS
TAOT 2020-C	US\$490.2	2.16	0.440	SMBC Nikko/BNP Paribas/Mizuho/RBC CM	Aaa/AAA/NR	ABS
TAOT 2020-C	US\$126.35	3.41	0.57	SMBC Nikko/BNP Paribas/Mizuho/RBC CM	Aaa/AAA/NR	ABS
Taurus 2020-2	£209	5.00	SONIA+170bp	BofA Securities	NR/NRAAA	CMBS
Taurus 2020-2	£96	5.00	SONIA+250bp	BofA Securities	NR/NR/AA-	CMBS
Taurus 2020-2	£76	5.00	SONIA+310bp	BofA Securities	NR/NR/A-	CMBS
Taurus 2020-2	£69	5.00	SONIA+410bp	BofA Securities	NR/NR/BBB-	CMBS
VERUS 2020-4	US\$281.722	2.32	1.502	Credit Suisse/Barclays	NR/AAA/NR	RMBS
VERUS 2020-4	US\$27.914	2.32	1.912	Credit Suisse/Barclays	NR/AA/NR	RMBS
VERUS 2020-4	US\$44.234	2.32	2.321	Credit Suisse/Barclays	NR/A/NR	RMBS
VERUS 2020-4	US\$28.774	2.32	3.291	Credit Suisse/Barclays	NR/BBB-/NR	RMB-
SVERUS 2020-4	US\$15.460	2.32	5.005	Credit Suisse/Barclays	NR/BB/NR	RMBS
VERUS 2020-4	US\$9.887	2.32	7.005	Credit Suisse/Barclays	NR/B+/B	RMBS

that may be required – we have catered for those,” Levitski said.

“And a one-SPV rather than three-SPV structure means the docs are a lot more straightforward; you don’t have to triple up on terms and waterfalls and mechanisms for three companies.”

The revolving portfolio holds (as of May 31) some £1.15bn mortgages to 7,818 accounts with an average current balance of £147,431, a weighted average original LTV of 67% and WA current indexed LTV of 57.3%. Seasoning is 2.6 years, fixed-rate loans make up 98.4% and all are repayment loans with no loans in arrears and no adverse credit.

There will be no borrowers with payment holidays in the closing portfolio, and borrowers on payment holidays or in arrears are ineligible for further sales into the vehicle during the revolving period.

And the seller is obliged to fund the Class A and Z note share of deferred principal and interest of any borrower granted a payment holiday after being sold into the SPV.

UK CMBS RETURNS WITH BLACKSTONE LAST-MILE LOGISTICS

BANK OF AMERICA SECURITIES reopened the UK CMBS market last week with an upsized

transaction sponsored by **BLACKSTONE** and backed by mainly last-mile logistics properties.

TAURUS 2020-2 UK is also the first CMBS to both issue Sonia-linked notes and securitise a Sonia-linked loan.

As a market reopener, the CMBS was already fairly conservatively structured - the capital structure does not go below investment grade, for example.

But strength of demand allowed sole lead BofA to upsize the transaction to £450m from the original £393.3m.

“Logistics CMBS is currently very much in favour with investors, on the back of what has been happening with Covid-19, whether it is for last-mile assets or big-box deals with large warehouses,” said Matthias Baltes, head of EMEA real estate structured finance at BofA.

Baltes said multi-family residential CMBS, and office CMBS – where there is a continuous good track record with payments – have remained also remained resilient.

“In the current environment it would be possible to bring a deal in any of those three asset classes,” Baltes said.

The portfolio backing Taurus comprises 285 properties, and according to DBRS the senior whole loan refinances Blackstone’s acquisition of three separate portfolios.

It said the assets will be integrated into Blackstone’s Mileway logistics platform, which includes assets securitised in other outstanding CMBS.

“Although the outbreak of [coronavirus] has negatively affected all CRE sectors, the portfolio has experienced a relatively less severe impact compared with other asset types,” DBRS said in its pre-sale report.

It said 81% of Q2 rent due had been collected, based on July 6 collection data. Blackstone is providing an interest payment guarantee to the loan facility agent, covering interest payments up to February 2021.

Otherwise the structure is not dissimilar to standard Blackstone CMBS, following a two-year non-call structure with three one-year extensions.

BofA priced the £209m Triple A (Fitch/DBRS) Class A at Sonia plus 170bp, following initial price thoughts of mid-to-high 100s, and guidance of 165bp-170bp. The £96m AA-/AA Class B came at 250bp, the £76m A-/AL Class C at 310bp and the £69m BBB-/BBBL Class D at 410bp.

Baltes said there was no meaningful shift in investor type or numbers compared to earlier this year, before Covid-19.

“CMBS always gets benchmarked against other asset classes such as CLOs, non-conforming, and also for some investors, the

Investors gobble up Arby's whole-business ABS

■ ABS Supply of whole business paper has been light

Investors devoured a whole business securitisation last week from US sandwich chain Arby's, signalling buy-side appetite for bonds backed by fast food franchises amid the Covid-19 pandemic.

It marks the second whole business ABS in 2020 from **INSPIRE BRANDS**, the owner of Arby's. The first was in January, when its Sonic drive-in chain priced a US\$900m deal.

Inspire, which is majority owned by private equity firm Roark Capital, priced last Thursday **ARBYS 2020-1**, the US\$825m Triple B rated note, at a yield of 3.25% last Thursday through Barclays, Bank of America, Credit Suisse, Morgan Stanley and Wells Fargo.

The yield came inside a guidance of 3.50–3.75% and an ITP at about 4.0%, according to two sources familiar with the deal.

The Arby's note fetched a seven-times subscribed order book before its launch, they said.

Investors are scrutinising the performances of fast food chains through the recent lockdown measures, which forced store closures.

Currently, eateries in most US states are allowed to operate only take-out service and dine-in options have been reduced, where available, in a bid to slow the transmission of the virus.

Large restaurant chains have been able to cope with these social-distancing measures

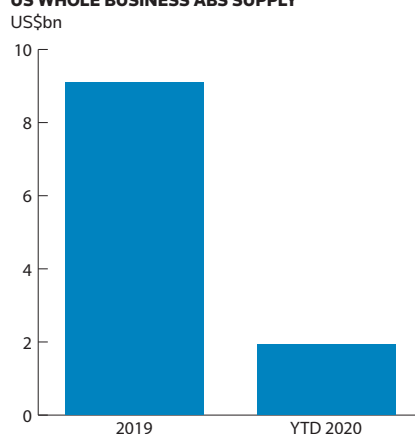
somewhat better than smaller independent operators.

"We are looking to see if they are offering any value," said Tracy Chen, head of structured finance at Brandywine Global. "It looks like there are going to be some winners and some losers."

Whole business ABS was one of the worst hit ABS sectors at the height of a market rout in March.

Since March, spreads on whole business ABS have dropped to over 200bp above swaps from more than 600bp at the peak of the sell-off, according to Bank of America analysts.

US WHOLE BUSINESS ABS SUPPLY



Source: IFR

LIGHT WBS SUPPLY

New supply has been scarce with just US\$1.94bn sold in the year to-date, after 2019's record US\$9.1bn in issuance of which 64% came from fast-food and casual dining chains, according to IFR data.

Spreads on WBS deals backed by global restaurant chains including **DOMINO'S PIZZA** and **DUNKIN' BRANDS** have recovered faster than those on transactions supported by more niche businesses such as health clubs and massage centres, according to investors and analysts.

"Some business models are under a lot of pressure," said Jake Remley, senior portfolio manager at Income and Research Management.

He noted restaurant related ABS have performed best within the whole business sector. "Fundamentally, they are still sound."

None of Arby's more than 3,500 locations in 48 US states and six foreign countries have been permanently closed due to the virus, according to the leads.

Still some restaurant whole business bonds have been more stressed by the pandemic than others.

Earlier this year, S&P and Kroll cut the ratings of two classes of **TGI FRIDAYS'** ABS deeper into junk territory because of the plunge in revenues. Richard Leong

US market. If you look at CLO spreads and adjust for the currency basis, that is pretty much where pricing ended up," Baltes said.

■ KENSINGTON GOES PUBLIC AND GOES BIG WITH RMS 32

KENSINGTON MORTGAGES has priced its second RMBS since the market reopened, selling a hefty £650m of notes backed by legacy mortgages.

Unlike its Finsbury Square 2020-2 RMBS in June, which was largely pre-placed, **RESIDENTIAL MORTGAGE SECURITIES 2020-1** was fully syndicated. Citigroup, Deutsche Bank (sole arranger) and Standard Chartered were joint leads.

That made it the first deal from a specialist lender since the start of the coronavirus crisis to be sold that way, rather than on a private, part-placed or club basis. It is also the largest.

Alex Maddox, capital markets and digital director at Kensington, said the lack of full syndication on those recent deals meant there were plenty of accounts that welcomed the opportunity to pick up primary paper.

"We did some pre-sounding but were very clear with investors that we didn't want to guarantee bonds to anyone," Maddox said. "We wanted to try to get the market back to normal – it's in our interest and in everyone's interest for deals to be properly syndicated."

RMS 32 included mortgages currently securitised in Residential Mortgages 28 and Kensington Mortgage Securities 2007-1, which will now be called on their next interest payment dates.

RMS 28 missed its first optional redemption date in June this year, while KMS 2007-1 is a pre-crisis trade that has long been callable.

The £653.96m portfolio will also include mortgages from legacy deals RMS 26, MARS 4 and SPS 05-3, which were called in November and December last year.

The deal's £520.8 2.86-year Triple A (S&P/Fitch) senior tranche was priced 2.7x covered at Sonia plus 125bp, after initial price thoughts of 130bp–140bp which were tightened to 125bp–130bp guidance.

"There's a definite lack of Triple A paper with a spread of more than 100bp in any

credit market and a lot of investors are desperate to find that kind of return," Maddox said.

"Most eurozone securitisations have an ECB bid behind them, and other credit markets have some kind of QE – so we really are one of the few places for investors to go for high-yield."

The 125bp print is inside the 130bp achieved by its Finsbury Square RMBS, backed by new origination, in June, though spreads have tightened since then – the RMS platform typically prices some 10bp–15bp outside Finsbury Square.

The mezzanine tranches all came well inside IPTs: the £48.82m AA+/AA–, £26.04m AA–/A–, £16.27m A/BBB– and £16.27m BBB/BB Classes B, C, D and E came at 190bp from low 200s IPTs, 220bp from mid 200s, 300bp from mid 300s and 430bp from low 500s.

They were 2.8x, 4.6x, 7.9x and 6.2x covered at final pricing.

The BB–/B rated Class F1 and B+/B Class X1 had been shown as "call desk" but ended up retained.

The notes are backed by 7,166 loans including a 12.14% buy-to-let portion, and with

an average £91,259 current loan size. 90-plus day arrears stand at 11.36%, self-employed borrowers make up 52.07%, self-certified are 64.52% and interest-only are 77.43%.

As of July 13, loans on payment holidays made up 21.18%.

PRE-PLACED UK RMBS TRIO EMERGE

Three pre-placed UK RMBS issues were sold last week, for Paratus, Pepper Money and Atom Bank.

Paratus priced buy-to-let RMBS **TWIN BRIDGES 2020-1** late on Monday, selling Triple As at the tightest print for a specialist lender since the Covid-19 crisis began – although their Sonia plus 125bp level was later in the week matched by Kensington's RMS 32.

The deal had been privately marketed via *National Australia Bank*, *Natixis*, *SMBC Nikko* and *Standard Chartered*.

Pepper Money's trade was **POLARIS 2020-1**, its second non-conforming RMBS. *Citigroup*, *National Australia Bank* and *NatWest Markets* were joint leads for the deal, which securitises £352.75m of mortgages to 1,953 borrowers, of whom 25% have CCJs. Buy-to-let loans make up 25.2% and some 54.7% of the loans are remortgages.

ALL EUROPEAN ISSUERS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Bank of America	12	3,608.81	14.2
2 Lloyds Bank	11	2,588.19	10.2
3 BNP Paribas	9	2,373.38	9.4
4 Citigroup	10	2,029.47	8.0
5 Deutsche Bank	4	1,659.53	6.6
6 Barclays	11	1,616.44	6.4
7 Credit Agricole	2	1,514.09	6.0
8 Commerzbank	3	1,258.93	5.0
9 Morgan Stanley	4	1,218.27	4.8
10 JP Morgan	5	1,198.84	4.7
Total	48	25,333.42	

Includes securitisations, credit-linked notes (Euro, foreign, global and domestics) and excludes CDOs.

Source: Refinitiv

SDC code: B16n

GLOBAL SECURITISATIONS IN STERLING

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total £(m)	Share (%)
1 Lloyds Bank	11	2,011.46	22.7
2 Bank of America	8	1,502.00	16.9
3 Citigroup	8	1,226.55	13.8
4 BNP Paribas	5	789.91	8.9
5 Barclays	7	755.94	8.5
6 Morgan Stanley	2	475.45	5.4
7 JP Morgan	3	434.00	4.9
8 NAB	3	403.72	4.6
9 Goldman Sachs	1	242.30	2.7
10 Santander	2	229.06	2.6
Total	25	8,863.37	

Including Euro, foreign, global and domestics, excluding CDOs.

Source: Refinitiv

SDC code: B16n

The Triple A (Moody's/S&P) tranche was priced with a Sonia plus 125bp coupon at a 99.547 cash price, to give a 145bp discount margin.

And self-styled "app only" UK challenger bank Atom Bank priced its third RMBS on Wednesday via sole lead *Citigroup*. Atom retained the top two tranches from **ELVET MORTGAGES 2020-1** and pre-placed all the rest of the structure, from an A-/A (S&P/Fitch) Class C down to an unrated Class Z and certificates layer.

For Atom's debut trade of Elvet in 2018, it sold the Triple A tranche and retained the rest. Its follow-up in 2019 pre-placed the entire structure with one investor.

M&G ATTEMPTING UKML TAKEOVER

M&G is attempting to take over the assets of the **UK MORTGAGES LTD** fund run by TwentyFour Asset Management. It said the UKML board has rejected several approaches, and on Monday it made public its most recent approach of July 15.

That was a cash offer at 67p per UKML share, which M&G said values existing issued share capital at around £183m, a 21% premium to the 55.5p closing share price of July 17.

GLOBAL STRUCTURED FINANCE IN EUROS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 Bank of America	4	1,478.27	11.9
2 Credit Agricole	2	1,352.56	10.9
3 Deutsche Bank	2	1,283.04	10.3
4 BNP Paribas	4	1,170.25	9.4
5 Commerzbank	3	1,142.17	9.2
6 ING	2	873.04	7.0
7 Goldman Sachs	2	791.39	6.4
8 LBBW	2	648.40	5.2
9 JP Morgan	2	574.63	4.6
10 ABN AMRO Bank	2	557.74	4.5
Total	21	12,427.60	

Includes securitisations, credit-linked notes (Euro, foreign, global and domestics) and excludes CDOs.

Source: Refinitiv

SDC code: B16n

SECURITISATIONS – ALL EUROPEAN RMBS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total €(m)	Share (%)
1 Bank of America	8	1,899.04	14.5
2 Lloyds Bank	8	1,856.39	14.2
3 Credit Agricole	2	1,352.56	10.3
4 Barclays	8	1,208.65	9.2
5 Citigroup	6	1,203.26	9.2
6 BNP Paribas	6	1,191.88	9.1
7 JP Morgan	4	1,009.16	7.7
8 Morgan Stanley	3	806.68	6.2
9 Coop Rabobank	1	500.00	3.8
10 NAB	3	468.20	3.6
Total	24	13,094.69	

Including Euro, foreign, global and domestics, excluding CDOs

Source: Refinitiv

SDC code: B10a

The UKML fund was set up to acquire and typically securitise UK residential mortgages. It recently sold Oat Hill No. 2, allowing a refinancing – delayed by three months from its first call date – of 2017 deal Oat Hill No. 1.

M&G is acting on behalf of its closed-end M&G Specialty Finance Fund. It said "the underlying assets held by UKML are complementary to those held by [the M&G Specialty Finance Fund] and will enable it to further build on its track record in acquiring and managing very similar assets in a private setting".

M&G said the UKML board has rejected all proposals to date and declined to enter into discussions that might allow it to proceed to a firm offer.

UKML responded by urging shareholders to take no action. It then said it would initiate a share buyback programme after Oat Hill No. 2 settles, and restore the annual dividend to its target level of 4.5p per share.

EMEA ABS

CITI TAKES DOWN AZURE 2 AUTO ABS

Citigroup Global Markets last week bought all notes placed by **AZURE FINANCE NO.2**, a UK auto ABS originated by **BLUE MOTOR FINANCE**. The originator retained the Class X2 and the residual certificates.

Citigroup and *Deutsche Bank* were joint arrangers and joint lead managers for the ABS, which securitises a pool of hire purchase auto loans.

Levels included Sonia plus 110bp for the £126.4m of 1.44-year Triple A (Moody's/S&P) notes. The placed portion of the capital structure went down to a £12.3m Class X rated Caa2/CCC, which came with a coupon of Sonia plus 500bp.

EMEA CLO

CLO TIGHTENING TREND CONTINUES

Three CLO new issues were priced last week as spreads continued tightening. Two of the deals, from **HAYFIN** and **HPS INVESTMENT PARTNERS**, sold Triple As at 145bp over three-month Euribor, the tightest levels since the market reopened.

Hayfin's deal is the €343.6m **HAYFIN EMERALD CLO IV**, which was arranged by *Goldman Sachs* with a one-year non-call period and approximately one-year reinvestment period. During marketing the structure was tweaked to add fixed to floating notes (switching after the call date) at both the Double A and Single A ratings.

The deal went down to a B3/B– Class F, which came at a 900bp discount margin.

AFG tweaks structure to raise A\$700m

■ RMBS Mortgage broker broadens investor pool to print its largest deals

AUSTRALIAN FINANCE GROUP sold its ninth and biggest prime RMBS offering last Wednesday with the upsized, no-grow A\$700m (US\$500m)

AFG 2020-1 TRUST.

NAB was arranger and joint lead manager with ANZ for the deal, which had an indicative issue size of A\$350m.

The deal benefited from several structural tweaks that served to broaden the investor base, with more than a quarter of participating investors being first-time buyers of AFG paper.

More than two-thirds was allocated to real money accounts and domestic investors received around two-thirds of the notes with the balance going to offshore investors.

Among the attractive features was the inclusion of both fast pay and slow pay Class

A notes, which appealed to different pools of liquidity, and a three-year call option to mitigate weighted average life extension risk.

Larger than normal 12.5% credit support for the Class A1 notes and the absence of any Covid-hardship borrowers within the mortgage pool provided additional comfort to investors.

The A\$230m Class AIS and A\$382.5m Class A1L notes, with respective WALs of 0.9 and 2.9 years, priced 95bp and 145bp wide of one-month BBSW.

The A\$49m Class AB, A\$20.4m Class B, A\$7.6m Class C, A\$4.2m Class D and A\$2.8m Class E notes, all with 3.0-year WALs, priced at one-month BBSW plus 205bp, 250bp, 320bp, 410bp and 650bp, while the A\$3.5m Class F notes were retained.

The A1 notes have 12.5% credit support, while the AB to E notes have respective support of 5.5%, 2.59%, 1.5%, 0.9% and 0.5%.

Australian Finance Group, one of the country's largest mortgage broking groups, issued its eighth prime RMBS offering last October, with the A\$500m AFG 2019-2 Trust.

The A\$450m Class A notes with a 2.7-year WAL priced at one-month BBSW plus 115bp or 30bp tighter than the latest comparable tranche.

The 2019-2 Class AB, B, C, D and E notes, all with longer 4.5-year WALs, priced 175bp, 205bp, 250bp, 375bp and 575bp wide of one-month BBSW or 30bp, 45bp, 70bp, 35bp and 75bp inside the equivalent margins this time around.

John Weavers

HPS's €400m **AQUEDUCT EUROPEAN CLO 5-2020** was arranged by BNP Paribas, and achieved the same 145bp print. It also has a B-/B- Class F, which came at an 850bp discount margin. The CLO has a one-year non-call and three-year reinvestment period.

The third print last week was **CAIRN's CAIRN CLO XII**, through Credit Suisse. Seniors came at 151bp over Euribor, while at the other end of the stack the B-/B- tranche came at an 865bp DM. There is a one-year non-call and three-year reinvestment period.

US MBS

▶ PRIVATE RMBS SUPPLY LITTLE MOVED BY RECORD LOW RATES

Issuance of US private-label mortgage-backed securities may end up getting only a small bump even as record-low mortgage

rates are expected to spur home-buying and refinancing.

Two weeks ago, interest rates on 30-year fixed-rate mortgages fell to 2.98% – their lowest levels on record going back nearly 50 years, before ticking up to 3.01% last week, **FREDDIE MAC** said last Thursday.

Even so, rock-bottom borrowing costs are expected to make only a small impact on primary issuance of private label-deals, which have only just made a modest recovery after grinding to a halt for two months following the Covid-19 outbreak.

The majority of the additional mortgage securitisation will probably be via mortgage finance agencies **FANNIE MAE**, Freddie Mac and **GINNIE MAE**.

"Some are going to the non-agency market, but most of it will go into the agency market," said Chris Flanagan, head of US mortgage and securitised products research at Bank of America.

Private-label RMBS supply has reached US\$42bn year-to-date, less than a third of the US\$128bn total seen for all of 2019, according to Bank of America.

Flanagan, who sees private-label RMBS issuance ultimately hitting US\$56bn in 2020, thinks that any pick-up in supply will probably stem from investor demand.

"Things are recovering quickly and spreads have come in quite quickly," Flanagan said. "Issuance can pick up."

For now, Flanagan is sticking to his latest RMBS forecast for 2020, which was downgraded from US\$163bn before the onset of the pandemic.

Analysts remain cautious about the RMBS sector as delinquencies may jump in the second half of 2020 if the government does not renew

extra jobless benefits expiring at the end of July. Some mortgage forbearance programmes are also set to expire in the coming weeks.

ROCK-BOTTOM RATES

The effect of cheap borrowing costs in the home-financing market had already been felt even before the latest drop in mortgage rates.

Fannie Mae raised its latest forecast on total mortgage production for 2020 by US\$139bn to US\$3.139trn. For this year, it now expects refinancings to hit US\$1.881trn and new mortgages to reach US\$1.258trn.

Mortgage application activity was up 4.1% in the week ended July 17 from the prior week and up 73.0% from a year ago on a seasonally adjusted basis, according to the Mortgage Bankers Association.

US home resales posted a record 20.7% jump in June but they were down 11.28% from a year ago, the National Association of Realtors said last Wednesday.

And much of the demand pick-up has been in agency-backed mortgages that offer the lowest available rates.

Mortgage rates on non-agency mortgages such as jumbo and non-qualified loans tend to run higher than those on agency-backed loans.

Jumbo mortgage rates averaged 3.21% last Thursday to buy a home, compared with 3.15% on benchmark 30-year rates, according to Bankrate.com.

Fannie Mae's chief economist Doug Duncan said interest rates on agency mortgages could fall another 20bp to about 2.75% if benchmark 10-year Treasury note yields stay in their trading range of 56bp to 90bp.

Borrowers obtaining loans at these levels will not "get out of them for a very long time", Duncan said.

GLOBAL CDOs

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Citigroup	14	5,616.12	19.1
2	JP Morgan	7	4,474.53	15.2
3	Barclays	8	3,228.62	11.0
4	Credit Suisse	8	2,759.60	9.4
5	Bank of America	8	2,535.16	8.6
6	BNP Paribas	7	2,211.72	7.5
7	Morgan Stanley	5	2,118.83	7.2
8	Goldman Sachs	4	1,680.66	5.7
9	Natixis	3	1,152.04	3.9
10	Jefferies	3	1,039.90	3.5
	Total	73	29,372.59	

Including Euro, foreign, global, US domestics.

Source: Refinitiv

SDC code: B12

JP MORGAN RETURNS WITH CREDIT TRANSFER DEAL

JP MORGAN tapped the US mortgage securitisation market last week with a credit risk transfer deal backed by once risky loans that were originated before the US housing bust more than a decade ago.

Credit risk transfer deals backed by private label mortgages are rare – JP Morgan only made its debut in this market last year, when it issued a private CRT backed by a US\$757.23m pool of mortgages it made.

More common are CRT securities backed by loans made by Fannie Mae and Freddie Mac. These have bounced back from steep losses during the March sell-off due to the fears about the pandemic.

JP Morgan's offering – CHASE MORTGAGE REFERENCE NOTES 2020-CL1 – will be backed by a US\$2bn pool of seasoned mortgages.

The 8,683 prime loans were modified to fixed-rate loans from negative amortisation loans that Washington Mutual originated between 1986 and 2008, Fitch Ratings said in a pre-sale report on the JP Morgan CRT deal released last Monday.

All the mortgages are current for 36 months, and none has requested forbearance due to the pandemic, Fitch added.

Negative amortisation mortgages were a popular financing product during the US housing boom because borrowers could choose how much to pay each month.

The structure allows borrowers to make a minimum payment, which was less than the interest owed for that period, but resulted in an increase in their loan balance.

Washington Mutual was one of the biggest lenders of these negative amortisation or “neg am” loans before it collapsed during the sub-prime mortgage crisis and was acquired by JP Morgan in 2008.

Despite these loans' chequered past, Fitch said the borrowers in this loan pool “have strong credit profiles” and “relatively low leverage”.

JP Morgan retained the senior portion of the securitisation, totalling US\$1.752bn, a buyside source said.

The bank offered the junior certificates to investors with the M1 note priced at a spread of 225bp over one-month Libor, the source said.

JP Morgan's deal came in what has been a quiet primary market for CRT bonds backed by agency loans.

FREDDIE MAC is currently in the market with a US\$735m CRT offering, STACR 2020-HQA3.

Agency CRT supply has totalled US\$9.8bn year-to-date, compared with a sum of

US\$21.3bn for all of 2019, according to Bank of America analysts. They forecast an annual CRT issuance of US\$12.0bn for 2020.

US ABS

HERTZ ABS HOLD FIRM AFTER DEAL WITH LENDERS

Prices on US asset-backed securities of car rental operator HERTZ held firm in the wake of a temporary deal reached last Monday between the bankrupt car rental company and its ABS lenders in a bid to pare the company's leased fleet.

Hertz filed for Chapter 11 bankruptcy on May 22, which kicked off a 60-day stay for the holders of its variable funding notes from seizing possession of the company's 500,000 or so fleet vehicles.

Under the tentative agreement, Hertz will sell 182,521 leased vehicles by the end of 2020 and plans to keep US\$900 from the sale of each vehicle through its retail channel, analysts said.

“We think this is a net positive for the ABS noteholders overall,” Deutsche Bank analysts wrote in a research note last Tuesday.

Prices on Hertz's senior Class A notes were holding at par, recovering from a 90-area in late

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 24/7/2020

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
SSAR							
US DOLLARS							
Jul 21 2020	World Bank	US\$5bn	Jul 28 2025	0.375	99.87	MS+10 / T+13.85	0.402
Jul 22 2020	CPPIB	US\$1bn	Jul 29 2025	0.375	99.43	MS+19 / T+23	0.49
Jul 23 2020	SEK	US\$600m	Jul 30 2024	0.375	99.82	MS+17 / T+25.3	0.42
EUROS							
Jul 21 2020	Berlin	€500m incr (€1bn)	Jun 4 2035	0.125	101.4	MS+7 / B+29.5	0.033
Jul 21 2020	EUROFIMA	€300m	Jul 28 2026	0	101.1	MS+17 / B+48.3	-0.18
Jul 21 2020	EUROFIMA	€250m incr (€1.38bn)	Oct 15 2034	0.15	99.5	MS+25 / B+56.9	0.186
Jul 21 2020	KfW	€3bn	Sep 15 2028	0	103.4	MS-13 / B+17.6	-0.41
Jul 23 2020	City of Hamburg	€250m incr (€750m)	Jun 3 2030	0.01	102.4	MS flat / B+29.2	-0.23
NON CORE							
Jul 21 2020	NWB	A\$40m incr (A\$105m)	Dec 16 2030	1.67	102.9	ASW+61, ACGB+46.5	1.371
Jul 22 2020	Export Finance Australia	A\$650m	Jan 29 2024	0.515	100	EF+20, ACGB+17.85	0.515
Jul 24 2020	TCorp	A\$2bn incr (A\$2.7bn)	Oct 9 2023	3mBBSW+39	100.603	3mBBSW+20	-
CORPORATES							
US DOLLARS							
Jul 21 2020	Lennox International	US\$300m	Aug 1 2027	1.7	99.705	T+130	1.745
Jul 20 2020	FLIR Systems	US\$500m	Aug 1 2030	2.5	99.807	T+190	2.522

April, while prices on Hertz's lower rated Class C paper were clinging in the low-90 range after bouncing back from the high-60s in early May, according to Deutsche Bank analysts.

DOWNGRADE RISKS

Hertz has about US\$10.2bn in ABS outstanding, of which US\$7.7bn are Class A senior paper, according to a research note from Wells Fargo last Wednesday.

The vehicle sales over the next six months are expected to raise US\$3.94bn, the analysts said.

Most of the proceeds from the vehicle sales will go to variable ABS holders.

The proposed payments are structured so Hertz would disburse a sum of US\$650m in base rent in six equal payments from July to December. Hertz will also tap its letters of credit to cover fees, expenses and interest to the ABS lenders.

The proposed payments are less than two-thirds what Hertz had paid before April, and it raises the risk of further downgrades on Hertz ABS, "as fleet depreciation continues to erode credit enhancement", said Deutsche Bank analysts.

But the deal provides some near-term certainty for both parties, Wells Fargo analysts said on Wednesday.

It also avoids a potential fire-sale of Hertz vehicles, which could have renewed pressure on used car prices, which have staged a rebound in recent months.

The Manheim used vehicle index hit an all-time high of 149.3 in June, coming back from a record 11.3% drop in April.

The proposed deal will be presented for court approval on Friday. Hertz and its ABS lenders can go back to court in January 2021 when this proposed deal ends.

ASIA-PACIFIC MBS

RESIMAC CONFIRMS MARGIN SPIKE

Non-bank lender **RESIMAC** priced an A\$1bn (US\$709m) non-conforming RMBS last Thursday that underlined the higher margins required, especially for subordinated tranches, amid the Covid-19 pandemic.

Macquarie and *NAB* were arrangers and joint lead managers with *CBA*, *Deutsche Bank* and *Wells Fargo* for the **RESIMAC BASTILLE TRUST SERIES 2020-1NC**, which had an indicative issue size of A\$500m

The A\$250m of Class A1 and A\$500m of Class A2 notes, with respective weighted

average lives of 0.57 and 2.9 years, priced 95bp and 165bp wide of one-month BBSW.

The A\$110m of Class AB notes, with a 2.9-year WAL, priced inside guidance in the 200bp–210bp area, at one-month BBSW plus 190bp.

The A\$66.5m of Class B, A\$27m of Class C and A\$18.8m of Class D notes, all with 3.43-year WALs, priced at 290bp, 390bp and 515bp. The A\$11.6m of Class E notes, with a 3.2-year WAL, priced at plus 850bp.

The transaction was completed by A\$3.6m of Class F and A\$12.25m of Class G notes.

The A1 and A2 notes have 25% credit support, while the AB to E notes have respective support of 14%, 7.3%, 4.6%, 2.72% and 1.56%.

Resimac previously issued non-conforming RMBS last October with the A\$1bn equivalent dual-currency Resimac Bastille Trust Series 2019-1NC.

The Class A2 notes, with a 2.7-year WAL, priced 130bp over one-month BBSW, or 35bp inside the latest comparable tranche.

The 2019-1NC Class AB, B, C, D and E notes, all with longer 4.1-year WALs, priced at one-month BBSW plus 180bp, 210bp, 290bp, 390bp and 590bp, or 10bp, 80bp, 100bp, 125bp and 260bp tighter than the equivalent new notes.

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
MS+12 area, MS+12 area	-	>US\$6bn, 100acs	Aaa/AAA/-	Citi / GS / MS / TD	Asia 51%, Amers 32%, EMEA 17%. CB/OI 59%, Bks/Corp 30%, AM/Ins/PF 11%.
MS+20 area, MS+19	-	>US\$2.1bn	Aaa/AAA/AAA	BMO / BofA / GS / TD	-
MS+17 area, MS+17	-	>US\$725m	Aa1/AA+/-	BMO / BofA / MS	-
MS+9 area	-	>€1.7bn	Aa1/-/AAA/AAA Scope	HSBC / LBBW / NatWest / Uni	-
MS+18 area	-	>€415m	Aa2/AA	CA-CIB / DB / JPM / Nomura	-
MS+26 area	-	>€370m	Aa2/AA	CA-CIB / DB / JPM / Nomura	-
MS-12 area	1	>€9bn, 162acs	Aaa/AAA/-/AAA Scope; ISS-ESG (Prime, C+), Sustainability (negligible risk), MSCI (AAA), IMUG (positive, BB)	CMZ / CA-CIB / NatWest	Ger 25%, UK/Ire 22%, Sp/Port 9%, Benelux 9%, Asia 9%, It 7%, Fr 6%, Aus/Switz 5%, Other 8%. Bks 56%, AM 31%, CB/OI 9%, Other 2%, Ins/PF 2%. Green 57%.
MS flat area	-	>€515m	-/-/AAA	BNPP / Deka / LBBW / RBI / TD	-
-	-	-	Aaa/AAA	Daiwa	-
EFP+20/+23	-	-	-/AAA	CBA / Citi / UBS	-
3mBBSW+20/+22	-	-	Aaa/AAA	CBA / ANZ	-
T+185 area, T+140 area (+/-5)	n/a	US\$4.4bn	Baa3/BBB	JPM/WFS	-
T+237.5 area, T+200 area (+/-5)	n/a	US\$4.3bn	Baa3/BBB/BBB	BofA/JPM	-

GLOBAL BOND SUMMARY DETAILS: WEEK ENDING 24/7/2020 (CONTINUED)

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
Jul 20 2020	Toyota Motor Credit	US\$750m	Jul 22 2022	0.45	99.938	T+33	0.481
EUROS							
Jul 21 2020	Azzurra Aeroporti	€360m	May 30 2024	2.125	99.93	MS+255 / B+286.3	2.145
Jul 21 2020	Azzurra Aeroporti	€300m	May 30 2027	2.625	99.76	MS+300 / B+332.7	2.664
STERLING							
Jul 21 2020	University of Leeds	£50m incr (£300m)	Dec 19 2050	3.125	138.6	G+85	1.533
Jul 22 2020	ENW Finance	£300m	Jul 30 2030	1.415	100	G+125	-
NON CORE							
Jul 21 2020	Central Nippon Expressway	A\$100m	Aug 1 2025	1.06	100	MS+68	1.06
Jul 22 2020	Port of Brisbane	A\$300m	Jan 29 2031	2.85	99.84	ASW+205	2.868
Jul 22 2020	Port of Brisbane	A\$200m	Jul 29 2027	2.3	99.73	ASW+180	2.342
FINANCIALS							
US DOLLARS							
Jul 20 2020	Bank of America	US\$2.75bn	Jul 23 2031	1.898	100	T+128	1.898
Jul 20 2020	Bank of America	US\$2.bn	Jun 19 2041	2.676	103.67	T+135	2.676
Jul 22 2020	UBS Group	US\$750m	Perpetual (Jul 2026)	5.125	100	T+485.5	5.125
EUROS							
Jul 22 2020	RBI	€500m	Perpetual (Dec 2026)	6	100	MS+644.6	6.002
NON CORE							
Jul 23 2020	UBS Australia	A\$500m	Jul 30 2025	1.2	99.99	ASW+87	1.202
Jul 23 2020	UBS Australia	A\$1.25bn	Jul 30 2025	0	100	3M BBSW+87	-
Jul 23 2020	UBS Australia	A\$1bn	Perpetual	0	100	3M BBSW+67	-
HIGH YIELD							
US DOLLARS							
Jul 17 2020	BBB Industries	US\$240m	Aug 1 2025 (Aug 2022)	9.25	95.229	-	10.5
Jul 20 2020	Powdr	US\$300m	Aug 1 2025 (Aug 2022)	6	100	-	6
Jul 20 2020	Wyndham Destinations	US\$650m	Jul 31 2026	6.625	100	T+624	6.625
Jul 21 2020	CCO Holdings	US\$1.5bn	Feb 1 2031 (Feb 2025)	4.25	102	T+341	4.015
Jul 21 2020	Clear Channel Int'l	US\$375m	Aug 1 2025 (Feb 2023)	6.625	100	T+636	6.625
Jul 21 2020	MasTec	US\$600m	Aug 15 2028 (Aug 2023)	4.5	100	T+399	4.5
Jul 23 2020	BY Crown Parent (Blue Yonder)	US\$750m	Jan 31 2026 (Jan 2022)	4.25	100	T+393	4.25
Jul 23 2020	Fortress Transport Infrastructure	US\$400m	Aug 1 2027 (Aug 2023)	9.75	100	T+930.7	9.75
Jul 23 2020	Surgery Center Holdings	US\$115m	Apr 15 2027 (Apr 2022)	10	100.8	-	9.745
EUROS							
Jul 24 2020	Intrum	€600m	Aug 15 2025 (Aug 2022)	4.875	100	B+554	4.875
Jul 24 2020	Inter Media and Communication	€75m	Dec 31 2022(July 2020)	4.875	93	B+900	8.285
Jul 24 2020	Stonegate	€300m	Jul 31 2025 (July 2021)	E+575	93		
STERLING							
Jul 24 2020	Stonegate	£950m	Jul 31 2025 (July 2022)	8.25	100	G+835	8.25

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
T+low 50s T+35 area (+/-2)	6	US\$1.5bn	A1/A+/A+	Blavan/Casoak/Citi/GP/RAM/Siewel	-
MS+260/+270	-	€800m	Baa3	BcalMI / MS / Uni / BofA / MUFG	-
MS+300/+310	-	€625m	Baa3	BcalMI / MS / Uni / BofA / MUFG	-
G+85 area	-	-	Aa3	Barc	-
G+145 area	-	-	-/BBB+/A-	HSBC / Santan	-
MS+70 area	-	-	A1/-/-/AA+/AAA R&I/JCR	Miz / SMBC Nikko	-
ASW+240 area	-	-	-/BBB	MUFG / WBC	-
ASW+210 area	-	-	-/BBB	MUFG / WBC	-
T+145 area, T+130 area (+/-2)	5	US\$5.9bn	A2/A-/A+	BofA	-
T+145 area, T+135 (the #)	9	US\$3.3bn	A2/A-/A+	BofA	-
5.75% area, 5.125%	-	US\$5.75bn	-/BB/BBB-	UBS	UK/Ire 47%, Asia 20%, Switz 13%, Fr 12%, Ger/Aus 4%, Nordics 2%, Other 2%. AM 77%, Banks/PB 15%, Ins/PF 4%, HF 2%, Other 2%.
6.5% area, 6.125% area	-	>€1.6bn	-/BB+/-	UBS / RBI / Barc / GS / JPM	-
ASW+95/+100	-	-	Aa3/A+/AA-	ANZ / CBA / NAB / UBS	-
3M BBSW+95/+100	-	-	Aa3/A+/AA-	ANZ / CBA / NAB / UBS	-
3M BBSW+75/+80	-	-	Aa3/A+/AA-	ANZ / CBA / NAB / UBS	-
9.25% coupon at 10.25%/10.50% yield	-	-	-	UBS/BMO/CS	-
6% area	-	-	B2/B	Jeff	-
6.75% area	-	-	Ba3/BB-/BB+	BofA / DB / JPM / Barc / CS / GS / MUFG / Scotia / STRH / WFS	-
1.02	-	-	B1/BB	MS	-
7% area, 6.625%	-	-	B2/B	DB/MS/Barc/Citi/CS/GS/JPM/WFS	-
4.625% area, 4.5%	-	-	Ba2/BB+	BofA/STRH/JPM/MS/Barc	-
4.50% area	-	-	B1/B-	GS / BofA / CS / JPM	-
9.75%/10%	-	-	Ba3/B+/BB-	MS	-
100.00%-100.50%	-	-	Caa2/CCC	Jeff / MQB / KKR	-
4.875% area, 4.875%	-	-	Ba2/BB/BB	MS(left), Nordic coords/JBs Nordea/SEB, JB's BNPP/Citi/CS/Danske/DB/DNB/GS/JPM/NatWest/Nyk/Swed	-
-	-	-	-/-/BB-	JPM	-
7.25%/7.5%	-	-	B3/-/B+	GloCos Barc(left)/GS/Nom JB's DB/Lloyds/Nom.	-
High 7%\$/Low 8%\$, 8%/8.25%	-	-	B3/-/B+	GloCos Barc(left)/GS/Nom JB's DB/Lloyds/Nom.	-

GLOBAL DEBT: SOVEREIGN FOREIGN CURRENCY LONG-TERM RATINGS (24/7/2020)

Sovereign	1	Moody's	2	3	S&P	4	5	Fitch	6	Sovereign	1	Moody's	2	3	S&P	4	5	Fitch	6
Abu Dhabi	Aa2	–	AA	AA+	AA	AA+				Kyrgyzstan	B2	Ba3	–	–	–	–	–	–	
Albania	B1	Ba2	B+	BB	–	–				Laos	–	–	–	–	–	B– n	BBB+		
Andorra	–	Ba2	BBB	AAA	BBB+	A+				Latvia	A3	Aaa	A	AAA	A–	AAA			
Angola	B3	B2	B– n	B–	B n	B				Lebanon	Caa2	Caa1	CCC n	CCC	CC	CCC			
Argentina	Caa2	Caa1	CC n	B–	RD	CCC				Lesotho	–	–	–	–	B	B+			
Armenia	Ba3	Ba1	–	–	BB–	BB				Liechtenstein	–	Aaa	AAA	AAA	–	–			
Aruba	–	–	BBB+ n	BBB+	BBB– n	BBB				Lithuania	A3 p	Aaa	A	AAA	A– p	AAA			
Australia	Aaa	Aaa	AAA	AAA	AAA n	AAA				Luxembourg	Aaa	Aaa	AAA	AAA	AAA	AAA			
Austria	Aa1	Aaa	AA+	AAA	AA+	AAA				Macau	Aa3	Aa2	–	–	AA n	AAA			
Azerbaijan	Ba2	Ba2	BBn	BB+	BB+	BB+				Macedonia (FYR)	–	–	BB–	BB	BB+ n	BBB–			
Bahamas	Ba2 n	Baa1	BB+	BBB–	–	–				Malaysia	A3	A1	A– n	A+	A–	A			
Bahrain	B2	Ba3	B+ p	BB–	BB–	BBB–				Maldives	B2 n	Ba3	–	–	B n	B			
Bangladesh	Ba3	Ba2	BB–	BB–	BB–	BB–				Malta	A2	Aaa	A– p	AAA	A+	AAA			
Barbados	Caa1	B2	B–	B–	–	–				Mauritius	Baa1	A2	–	–	–	–			
Belarus	B3	B3	B	B	B	B				Mexico	Baa1 n	A1	BBB+ n	A+	BBB –	BBB+			
Belgium	Aa3	Aaa	AA	AAA	AA–	AAA				Moldova	B3	B2	–	–	–	–			
Belize	Caa1 n	B1	CC n	CC	–	–				Mongolia	B3 n	B1	B	B+	B	B+			
Bermuda	A2	Aa3	A+	AA+	–	–				Montenegro	B1 p	Ba1	B+ n	AAA	–	–			
Bolivia	Ba3	Ba2	B+	B+	B+	B+				Montserrat	–	–	BBB–	BBB–	–	–			
Bosnia Herzegovina	B3	B3	B	BB–	–	–				Morocco	Ba1	Baa2	BBB–	BBB+	BBB– n	BBB			
Botswana	A2 n	Aa3	A–	A+	–	–				Mozambique	Caa2	Caa1	CCC+	CCC+	CCC	B–			
Brazil	Ba2	Ba1	BB–	BB+	BB– n	BB				Namibia	Ba2 n	Baa3	–	–	BB	BB+			
Bulgaria	Baa2	A3	BBB	A	BBB p	A–				Netherlands	Aaa	Aaa	AAA	AAA	AAA	AAA			
Cambodia	B2	B1	–	–	–	–				New Zealand	Aaa	Aaa	AA p	AAA	AA	AAA			
Cameroon	B2	Ba2	B n	BBB–	B n	BB+				Nicaragua	B2n	B1	B–	B–	B– n	B–			
Canada	Aaa	Aaa	AAA	AAA	AA+	AAA				Nigeria	B2 n	B1	B	B+	B+ n	B+			
Cape Verde	–	–	B	BB–	B–	B				Norway	Aaa	Aaa	AAA	AAA	AAA	AAA			
Cayman Islands	Aa3	Aa2	–	–	–	–				Oman	Ba3 n	Baa3	BB n	BB+	BB+	BBB–			
Chile	A1	Aa2	A+	AA	A	AA				Pakistan	B3	B2	B–	B–	B–	B–			
China	A1	Aa3	A+	A+	A+	A+				Panama	Baa1	A2	BBB+ n	AAA	BBB	A			
Colombia	Baa2	A3	BBB–	BBB+	BBB n	BBB+				Papua New Guinea	B2	B1	B–	B–	–	–			
Congo (DR)	B3 n	B3	CCC+	CCC+	–	–				Paraguay	Ba1	Baa3	BB	BB+	BB+	BB+			
Congo (Rep)	Caa2 n	B2	B–	BBB–	CCC	B+				Peru	A3	A1	BBB+	A	BBB+	A–			
Cook Islands	–	–	B+	AAA	–	–				Philippines	Baa2	A3	BBB+	A–	BBB p	BBB+			
Costa Rica	B2 n	Ba2	B– n	BB–	B n	B+ n				Poland	A2	Aa3	A–	A	A–	AA–			
Cote d'Ivoire	Ba3	Baa3	–	–	B+ p	BBB–				Portugal	Baa3 p	Aa3	BBB	AAA	BBB	AA			
Croatia	Ba2 p	Baa3	BBB	BBB+	BBB– p	BBB+				Qatar	Aa3	Aa3	AA–	AA	AA–	AA			
Cuba	Caa2	Caa2	–	–	–	–				Ras al-Khaimah	–	–	A	AA+	A	AA+			
Curacao	–	–	BBB+	BBB+	–	–				Romania	Baa3 n	A3	BBB–	A–	BBB– n	BBB+			
Cyprus	Ba2 p	A2	BBB–	AAA	BBB – p	A				Russia	Baa3	Baa2	BBB–	BBB	BBB	BBB			
Czech Rep	Aa3	Aa1	AA–	AA+	AA–	AAA				Rwanda	B2	B1	B+	B	B+	B+			
Denmark	Aaa	Aaa	AAA	AAA	AAA	AAA				St Vincent & Gren	B3	Ba3	–	–	–	–			
Dominican Rep	Ba3	Ba1	BB– n	BB+	BB–	BB–				San Marino	–	–	–	–	BBB– n	BBB+			
Ecuador	B3 n	B2	B–	B–	RD	CCC				Saudi Arabia	A1 n	A1	A–	A	A	A+			
Egypt	B2	B1	B	B	B+	B+				Senegal	Ba3	Baa1	B+	BBB–	–	–			
El Salvador	B3	B1	B–	AAA	B– n	B				Serbia	Ba3	Ba1	BBB+	BBB–	BB+	BBB–			
Estonia	A1	Aaa	AA–	AAA	AA–	AAA				Seychelles	–	–	–	–	B+	BB			
Eswatini	B3 ▼	B1	–	–	–	–				Singapore	Aaa	Aaa	AAA	AAA	AAA	AAA			
Ethiopia	B2	B1	B	B	B n	B				Slovakia	A2	Aaa	A+	AAA	A	AAA			
Fiji	Ba3 n	Ba3	BB–	BB–	–	–				Slovenia	Baa1 p	Aa1	AA–	AAA	A	AAA			
Finland	Aa1	Aaa	AA+	AAA	AA+ p	AAA				Solomon Islands	B3	B2	–	–	–	–			
France	Aa2 p	Aaa	AA	AAA	AA n	AAA				South Africa	Baa3 n	A3	BB–	BB+	BB+ n	BBB–			
Gabon	Caa1 p	B1	–	–	B	BB+				South Korea	Aa2	Aa1	AA	AAA	AA–	AA+			
Georgia	Ba2	Baa3	BB	BBB–	BB n	BBB–				Spain	Baa1	Aa1	A	AAA	A–	AAA			
Germany	Aaa	Aaa	AAA	AAA	AAA	AAA				Sri Lanka	B2	Ba3	B–	B–	B– n	B–			
Ghana	B3 n	B1	B n	B+	B	B				Suriname	Caa3 n	Ba3	SD	CCC–	CC	CCC			
Greece	B1	Baa1	BB–	AAA	BB	BBB+				Sweden	Aaa	Aaa	AAA	AAA	AAA	AAA			
Guatemala	Ba1	Baa3	BB–	BB+	BB n	BB+				Switzerland	Aaa	Aaa	AAA	AAA	AAA	AAA			
Honduras	B1	Ba2	BB–	BB	–	–				Tanzania	B1n	Ba3	–	–	–	–			
Hong Kong	Aa2 n	Aaa	AA+	AAA	AA–	AAA				Taiwan	Aa3	Aa2	AA–	AA+	AA–	AA+			
Hungary	Baa3	Baa1	BBB	A–	BBB	A				Thailand	Baa1	A2	BBB+	A	BBB+ p	A–			
Iceland	A3 p	A3	A	A	A n	A+				Trinidad & Tobago	Ba1 n	Baa3	BBB	BBB+	–	–			
India	Baa3 n	Baa1	BBB–	BBB+	BBB–	BBB–				Tunisia	B2 n	Ba3	–	–	B	B+			
Indonesia	Baa2	A3	BBB n	BBB+	BBB	BBB				Turkey	B1n	B1	B+	BB–	BB–	BB–			
Iraq	Caa1	B3	B–	AAA	B– n	B–				Turks & Caicos	–	–	BBB+	AAA	–	–			
Ireland	A2	Aaa	AA–	AAA	A+	AAA				Uganda	B2	Ba3	BB	A–	B+ n	B+			
Israel	A1	Aa3	AA–	AA+	A+	AA				Ukraine	B3	B3	B	B	B p	B			
Italy	Baa3	Aa3	BBB n	AAA	BBB–	AA–				UAE	Aa2	Aa2	–	–	–	–			
Jamaica	B2	Ba3	B+ n	BB–	B+	BB–				UK	Aa2	Aaa	AA +	AAA	AA n	AAA			
Japan	A1 p	Aaa	A+	AA+	A	AAA				USA	Aaa	Aa2	AA+	AAA	AAA	AAA			
Jordan	B1	Ba1	B+	BB	BB– n	BB				Uruguay	Baa2	Aa2	BBB	A–	BBB– n	BBB+			
Kazakhstan	Baa3 p	Baa2	BBB–	BBB	BBB	BBB+				Uzbekistan	–	–	BB– n	BB–	–	–			
Kenya	B2 n	Ba3	B+ n	BB–	B+	BB–				Venezuela	C	Ca	SD	CC	–	–			
Kuwait	Aa2	Aa2	AA– n ▼	AA	AA	AA+				Vietnam	Ba3	Ba1	BB	BB	BB p	BB			
										Zambia	Caa2 n	B3	CCC+	CCC+	CCC	B –			

- Moody's Government Bonds
- Moody's Country Ceilings
- S&P Government Bonds
- S&P Transfer and Convertibility Assessments

- Fitch Government Bonds
- Fitch Country Ceilings
- Positive outlook/on watch for upgrade

- Negative outlook/on watch for downgrade
- New rating
- Rating withdrawn
- Selective default

- * Taken off positive watch/outlook
- ** Taken off negative watch/outlook

- ▲ Improvement in ratings, outlook or watch status
- ▼ Deterioration in ratings, outlook or watch status

FRONT STORY CEE

Ukraine sequel hits the right notes

Investors remain well disposed to sovereign despite NBU turmoil

UKRAINE put to bed any stress caused by a cancelled bond issue, as it resurrected its March 2033 trade on Thursday and priced a bigger deal at a yield inside the pulled issue.

Ukraine (B/B) printed a US\$2bn bond compared with US\$1.75bn on the original trade launched in July 1, and at a yield of 7.25% compared with 7.30%.

The deal was run in conjunction with a switch tender for up to US\$750m on its 2021s and 2022s. Ukraine ultimately accepted a touch over US\$846m of those bonds.

"It was a repeat of last time, with the change in size because of the added pick-up in the switch," said a lead.

"Investors were aware of the process and knew it was a way to get involved in the new bond. The market was positioned for this and ready for the switch opportunity."

Investors appear to be giving the Zelenskiy administration the benefit of the doubt and clearly see the potential for big capital gains.

The sovereign's September 2032s, for example, were bid at 5.75% in mid-February.

They are now at 7.22%, according to Refinitiv, a few basis points lower than where they were quoted after the previous deal was cancelled, and were the best reference point for the new notes.

The return of the trade was no great surprise after Kyrylo Shevchenko was installed as central bank governor following the resignation of Yakiv Smoliy, whose decision prompted the finance ministry to pull the bond earlier this month after it had priced.

The offering had signalled investors' confidence in the new US\$5bn IMF agreement, before it got withdrawn.

At the time most investors said Ukraine's finance ministry made the correct decision and that they remained relatively bullish on the sovereign.

Coming into the new trade, the main issue for investors was whether Shevchenko will be free to oversee a truly independent central bank – and while that remains to be seen – he made encouraging noises in his first few days in office.

"The National Bank will remain an independent institution," Shevchenko said earlier in the week, speaking alongside President Zelenskiy.

"I think the jury is still out on the new NBU chairman and how much independence the institution will have but investors haven't pulled the sell trigger yet," said Max Wolman, senior investment manager at Aberdeen Standard Investments.

"They managed to raise slightly more than the initial deal, which was pulled and at a slightly lower yield as well so all good news for the government."

The lead said final demand reached around US\$5.5bn, compared with a peak of over US\$7.5bn for the scrapped offering.

"It's slightly less but not materially different and we are still talking about it being comfortably oversubscribed," he said.

The bonds traded down around 0.375pt in the aftermarket, although the lead attributed that to general market weakness.

Goldman Sachs and JP Morgan were the leads.

Robert Hogg, Sudip Roy

Genting plans to expand Empire

Malaysian casino operator plans bond issue by US acquisition

EMPIRE RESORTS, a loss-making US casino that was taken private last year by Genting Malaysia and the chairman of its parent company, has hired banks for a proposed US dollar bond offering.

The owner and operator of the Resorts World Catskills integrated casino resort and the Monticello Raceway in New York state hired banks to arrange calls with investors in Asia, the US and Europe last week.

BNP Paribas, Citigroup and DBS are bookrunners.

A US dollar five-year non-call two benchmark offering of 144A/Reg S senior secured bonds may follow. The issue size is expected to be US\$475m.

Malaysia's Kien Huat Realty III owns 51% of Empire Resorts and Genting Malaysia 49%, after the two took the company private in November. The former is an affiliate of Lim

Kok Thay's Kien Huat Realty, which owns 43% of Genting Berhad, which in turn owns a 49.5% stake in Genting Malaysia.

The issuer is rated B+/B and the notes are expected to have a keepwell deed from Kien Huat Realty and Genting Malaysia. The bonds have expected ratings of B+/B+.

Genting already operates Resorts World New York and is developing a casino in Las Vegas that is due to open in 2021. Resorts World Las Vegas's US\$1bn 10-year bond sold in April last year also came with a keepwell deed, which was provided by Genting Berhad.

The Malaysian company plans to bring Empire Resorts under an umbrella with the rest of its US operations.

The Catskills resort opened in February 2018 and was losing money even before it was ordered to close in mid-March this year to curb the spread of the coronavirus.

Empire Resorts announced in August 2019 that it was considering filing for Chapter 11 bankruptcy proceedings if it could not restructure its debt and complete the takeover, but in the end Genting Malaysia agreed to subscribe for US\$40m of preferred shares, while Kien Huat injected a further US\$25m, bringing its total investment in preferred stock to US\$151m. Empire Resorts' debt stood at US\$540m at the end of December.

S&P estimated that Empire Resorts burns through around US\$5m a month while it is closed.

The rating agency downgraded Genting Berhad and Resorts World Las Vegas to BBB and BBB-, respectively, from BBB+ and BBB in May, warning: "The Covid-19 pandemic is hitting the Genting group harder and longer than we anticipated."

It had already downgraded both by a notch in December, noting that the Empire acquisition and other expansion plans would keep leverage high.

Daniel Stanton

ASIA-PACIFIC

CHINA

SPIC SAILS THROUGH US-CHINA TENSIONS

China's **STATE POWER INVESTMENT CORP** has returned to the international market with a US\$1bn bond issue that was more than four times covered and priced inside its curve despite market jitters over rising US-China tensions.

The state-owned power producer last Wednesday priced the 1.625% five-year Reg S bond at 99.914 to yield 1.643%, or Treasuries plus 138bp, 52bp tighter than initial 190bp area guidance.

The deal received final orders in excess of US\$4.6bn from 144 accounts, including US\$1.1bn from the leads. Orders peaked at US\$6.8bn ahead of the release of final guidance.

"Although there was market upheaval in the afternoon, high quality, big international institutional investors remained in the deal. This reflected investors' confidence in big central SOEs," a banker on the deal said.

The market came under pressure last Wednesday afternoon on news that the US had ordered China to close its consulate in Houston, saying this was to protect American intellectual property.

Asian investors took 91% of the bonds and those from EMEA 9%. Asset managers were allocated 43%, banks 30%, financial institutions 17% and sovereign wealth funds and central banks 10%.

The notes were priced inside the bookrunners' fair value estimate of 145bp over Treasuries, according to the banker.

SPIC's 3.875% 2026s were bid at a G spread of 147bp while the 2.6% 2024s of another state-owned power producer, China Huaneng Group, were bid at a G spread of 148bp ahead of the release of initial guidance.

ANZ saw fair value at 132bp and research firm CreditSights at 150bp–155bp.

Although SPIC priced inside its own curve, the new bonds traded 7bp–8bp tighter on their first day of trading.

The Reg S notes will be issued off a US\$3bn MTN programme by wholly owned subsidiary SPIC MTN, with state-owned parent company SPIC (A2/A–/A) as the guarantor.

SPIC is one of the five largest state-owned electricity producers in China. It also engages in coal mining and aluminium smelting.

It last tapped the dollar bond market with US\$500m of senior perpetual non-call 3.5

securities priced at par to yield 5.8% in November 2018, according to Refinitiv data.

SPDB HK BRANCH PRINTS FLOATER

SHANGHAI PUDONG DEVELOPMENT BANK HONG

KONG BRANCH has priced US\$500m of three-year floating-rate senior unsecured bonds at three-month Libor plus 85bp, 40bp tighter than initial guidance of the 125bp area.

The Reg S issue, which will be issued off a US\$5bn MTN programme, has an expected Baa2 rating by Moody's.

Final statistics were not available at the time of writing but orders were said to be over US\$2.3bn at the time of final guidance, including US\$1.59bn from the leads.

The final pricing was 5bp inside Nomura's fair value estimate of 90bp wide of three-month Libor.

Nomura said SPDB HK's notes should trade at least 10bp–15bp wider than recently issued three-year dollar floaters by larger state-owned banks like Bank of China and Bank of Communications to reflect its much smaller size and systemic importance, weaker capitalisation and liquidity, and larger exposure to non-standard credit assets.

CCB HK BRANCH PLANS GREEN BOND

CHINA CONSTRUCTION BANK CORP HONG KONG BRANCH has hired banks for a proposed benchmark-sized US dollar Reg S senior unsecured green bond offering with a short to intermediate maturity and will hold investor calls on Monday.

CCB, Agricultural Bank of China, BNP Paribas, Bank of America, Citigroup, HSBC and Mizuho Securities are joint global coordinators.

The proposed green bonds will be issued under the lender's US\$15bn MTN programme and have an expected A1 rating by Moody's.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Asia-Pacific			
Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 HSBC	170	19,647.77	9.0
2 Citigroup	90	13,526.62	6.2
3 Standard Chartered	99	11,365.83	5.2
4 Bank of China	115	9,349.77	4.3
5 UBS	82	9,055.49	4.1
6 Bank of America	51	8,354.58	3.8
7 JP Morgan	71	8,011.48	3.7
8 Credit Suisse	75	7,730.99	3.5
9 Credit Agricole	64	6,943.28	3.2
10 Goldman Sachs	44	6,868.57	3.1
Total	471	219,369.66	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L4

The green bonds have received pre-issuance certification as Climate Bonds under the Climate Bonds Standard.

Moreover, a pre-issuance stage certificate from the Hong Kong Quality Assurance Agency has been obtained or will be obtained on or before the issue date of the green bonds, certifying that the green bonds are aligned with the requirements of the HKQAA Green Finance Certification Scheme.

HONG KONG

CHONG HING BANK PLANS AT1 ISSUES

CHONG HING BANK is planning to issue US dollar Basel III-compliant perpetual, non-cumulative, subordinated Additional Tier 1 capital securities under its US\$2bn medium-term note and perpetual capital securities programme.

The Hong Kong lender, rated Baa1/BBB (Moody's/Fitch), has arranged a series of conference calls on Friday and a benchmark-sized Reg S deal may launch as early as Monday.

The perpetual non-call five AT1s are expected to be rated Ba2 by Moody's.

BOC International, CCB International, Chong Hing Bank, CLSA, CMB International, CMBC Capital, Credit Agricole and Yue Xiu Securities are global coordinators as well as lead managers and bookrunners with CMB Wing Lung Bank and HSBC.

P&R HOLDINGS HOLDS INVESTOR CALLS

P&R HOLDINGS has hired AMTD, China Citic Bank International and HSBC to arrange fixed income investor calls that began on July 24.

The property company is held by Regal Hotels International Holdings and Paliburg Holdings.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Citigroup	164	41,450.87	8.9
2 HSBC	223	37,199.98	8.0
3 JP Morgan	158	34,812.78	7.5
4 Standard Chartered	135	25,273.91	5.4
5 Goldman Sachs	87	22,870.94	4.9
6 Deutsche Bank	81	22,519.81	4.8
7 BNP Paribas	97	20,340.03	4.4
8 Bank of America	92	19,774.44	4.2
9 Credit Agricole	84	13,772.68	3.0
10 Barclays	74	12,420.09	2.7
Total	718	466,113.40	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L1

Huzhou City Investment puts a shine on LGFV bonds

■ **CHINA** Unlike many other LGFV bonds, the deal attracted significant market orders

HUZHOU CITY INVESTMENT DEVELOPMENT GROUP

has priced a US\$300m Reg S bond offering that was 15 times covered, a rare hot deal from the Chinese local government financing vehicle segment.

The three-year notes from the Zhejiang province LGFV were priced at par to yield 3.15%–3.20%, and 65bp tighter than initial guidance of the 3.8% area.

The deal drew final orders in excess of US\$4.5bn from 91 accounts, including US\$1.6bn from the leads. The bookrunners closed the Asian book early at around 1pm Hong Kong time last Thursday as demand flooded in.

A banker on the deal reckoned that orders for recent LGFV deals seldom exceeded US\$2bn.

“The book was unexpectedly strong. The deal was already 14 times covered at noon so we decided to close the Asian book earlier than usual,” the banker said. Usually, Reg S deals close at 3pm–4pm in Asia.

The banks on the deal put fair value at 3.5% and expected some orders to drop out after an aggressive tightening from IPG to price about 35bp inside fair value, but this did not happen.

“Many investors said their price limit was 3.3%, but they stayed on even after we tightened final guidance to 3.15%–3.20%,” he said.

STRONG MARKET ORDERS

Unlike other LGFVs, Huzhou City Investment, Baa3/BBB (Moody's/Fitch), attracted significant market orders beside those from anchors and bookrunners.

Still, only about US\$105m of the bonds were eventually allocated to market orders and many private bank clients did not get any allocation. The bulk of the bonds were distributed to anchors and JGCs as the issuer had previously promised.

The banker on the deal said it was common practice for LGFVs to secure anchor orders before launching a deal to ensure smooth execution and this was unlikely to change.

“For high quality LGFV names like Huzhou, 20%–30% of the deal size is enough, but weaker names may need 50%–60% cover before formally marketing the deal,” he said.

Asian investors took 99% of the bonds and EMEA 1%.

“[Huzhou] is a good name in the LGFV segment and there was not much supply from good quality LGFVs this year. Moreover, investors have more confidence in LGFVs from Zhejiang province. All these factors contributed to the overwhelming demand,” the banker said.

The newly priced bonds were unchanged in the aftermarket on their first trading day.

Huzhou City Investment engages in urban infrastructure construction, property development, water supply and gas supply.

The senior unsecured bonds will be issued by wholly owned BVI subsidiary Taihu Pearl Oriental and guaranteed by the state-owned parent company.

CCB International, Bank of China, Huatai International, Standard Chartered and DBS Bank were global coordinators.

Carol Chan

points on the week, according to Tradeweb. The price had hovered around par until the start of March but plunged to as low as 20 on March 30.

Even before the coronavirus outbreak worsened its business conditions, the company had been facing change of control risks due to the high level of share pledges taken by its controlling shareholders and the more than 70% drop in its share price in March.

INDONESIA

ALAM SUTERA PLANS DOLLAR BOND

ALAM SUTERA REALTY plans to issue up to US\$485m of Reg S bonds, according to a filing with the Indonesian Stock Exchange, though its depressed secondary prices will make this challenging.

Proceeds will be used to help repay its US\$175m 11.5% bonds due April 22 2021 and US\$370m 6.625% bonds due April 22 2022.

The Indonesian property developer will seek approval for the proposed offering at its annual general meeting on August 26. In Indonesia, fundraisings equivalent to more than 50% of shareholder equity require approval by shareholders. Alam Sutera last week had a market capitalisation of around US\$170m.

Moody's downgraded Alam Sutera and its dollar bonds to Caa1 from B3 in March. In April, S&P cut the company and its bonds to CCC+ from B–, while Fitch cut its ratings to B– from B.

The 2021s were bid last Monday at a cash price of 64 and the 2022s at 39, according to Refinitiv data.

SOUTH KOREA

GS CALTEX BRINGS REFINED DEAL IN ROUGH TIMES

Oil refiner GS CALTEX has raised US\$300m from a five-year Reg S bond offering that was more than eight times subscribed, shrugging off uncertainties over the coronavirus and oil prices.

The 1.625% senior unsecured notes priced at 99.671 last Monday to yield 1.694% or Treasuries plus 142.5bp, which was the tight end of final guidance and inside initial guidance in the 190bp area.

The deal received final orders in excess of US\$2.5bn from 167 accounts after peaking at more than US\$3.6bn when final guidance was announced.

“Quality accounts stayed on but some investors dropped out of the deal due to tight pricing that was helped by a relatively clear window with not much competition and strong investor feedback post

INDIA

FUTURE RETAIL MISSES COUPON PAYMENT

FUTURE RETAIL has missed the first coupon payment on its debut US dollar bond that was due on July 22.

The Indian retailer said its liquidity position has been affected by restrictions on its business operations due to the nationwide lockdown to contain the coronavirus pandemic, according to a stock exchange filing.

Future Retail had a Rs1bn (US\$13.3m) payment due on the US\$500m 5.6% 2025 bonds.

The company proposed to make the coupon payment within 30 days from the

interest due date, citing the terms of the bond offering, but did not elaborate on where the funds will come from.

Although a payment default has not yet occurred thanks to the 30-day grace period, S&P said it could lower its preliminary rating on Future Retail to D and that the retailer's weak liquidity will remain an overarching credit risk, regardless of the company making the coupon payment.

In April, the agency cut the rating on Future Retail and its US dollar bonds to CCC–, six notches below where it was when the company first tapped the international bond market in January. The bonds had a rating of BB–/BB at the start of the year, in line with the issuer at the time.

Future Retail's 2025s were bid at a cash price of 52 last Friday, down more than 10

roadshow,” said a banker on the deal.

The new bonds paid zero to negative new issue concession, referencing the company’s 2024s that were seen at a spread of around Treasuries plus 140bp, according to the banker.

Despite the tight pricing, the new bond traded inside reoffer in secondary throughout last week. The notes were seen at the Treasuries plus 140bp area last Friday, according to Tradeweb.

Both Moody’s and S&P expect weak operating performance for GS Caltex this year, but cited its disciplined financial policy and low debt level as pointing towards a recovery in credit metrics in 2021-22.

GS Caltex’s Baa1 rating by Moody’s reflects a two-notch uplift based on the rating agency’s

expectation that the company will receive support from its US parent, Chevron, rated Aa2 by Moody’s, and institutional support from the South Korean government in times of need.

› KOREA SE POWER HOLDS CALLS

KOREA SOUTH-EAST POWER started holding investor calls on July 22 ahead of a potential US dollar Reg S sustainability bond offering with a short to intermediate maturity.

Citigroup, Credit Agricole CIB and HSBC are bookrunners, as IFR reported earlier.

The proceeds of the proposed bond are set to be used for refinancing. The South Korean power company has an Australian dollar bond maturing in September.

Korea South-East Power, rated Aa2/AA (Moody’s/S&P), is wholly owned by Korea Electric Power Corporation, which is 51%-owned by the government.

EUROPE/AFRICA

LITHUANIA

› SOVEREIGN GOES LOWER FOR LONGER

LITHUANIA achieved its lowest coupon for a 30-year bond with its €1.75bn 0.50% July 2050 note on Tuesday, as it joined the big group

GLOBAL EMERGING MARKETS BOND DETAILS: WEEK ENDING 24/7/2020

Pricing date	Issuer	Amount	Maturity	Coupon (%)	Reoffer	Spread (bp)	Yield (%)
ASIA							
Jul 20 2020	GS Caltex	US\$300m	Jul 27 2025	1.625	99.67	T+142.5	1.694
Jul 21 2020	DoubleDragon Properties	US\$75m	Jul 27 2025 (Jul 2022)	7.25	100	-	7.25
Jul 22 2020	San Miguel Corp	US\$500m	Perpetual (Jul 2025)	5.5	100	T+523.7	5.5
Jul 22 2020	SPIC	US\$1bn	Jul 27 2025	1.625	99.91	T+138	1.643
Jul 23 2020	Fantasia Holdings	US\$350m	Jul 28 2023 (Jul 2022)	9.25	99.49	-	9.45
Jul 23 2020	Huzhou City Investment	US\$300m	Jul 30 2023	3.15	100	-	3.15
Jul 23 2020	Manila Water sustainable	US\$500m	Jul 30 2030 (Jul 2025)	4.375	99	-	4.5
Jul 23 2020	Megaworld Corp	US\$350m	Jul 30 2027	4.125	98.51	-	4.375
Jul 20 2020	China Huarong Financial Leasing	US\$300m	Jul 21 2021	2.5	99.76	-	2.75
Jul 20 2020	SPDB HK BRANCH	US\$500m	Jul 27 2023	3mL+85	100	3mL+85	-
Jul 21 2020	ICBC International Holdings	US\$700m	Jul 28 2025	1.7	99.69	T+150	1.766
Jul 23 2020	Mirae Asset Daewoo	US\$300m	Jul 30 2023	2.125	99.73	T+205	2.217
Jul 23 2020	Mirae Asset Daewoo	US\$300m	Jul 30 2025	2.625	99.59	T+245	2.714
EMEA							
Jul 21 2020	Lithuania	€1.75bn	Jul 28 2050	0.5	96.27	MS+65/B+66	0.637
Jul 22 2020	BSTDB	US\$150m incr (US\$550m)	Jun 26 2024	3.5	103.7	MS+225/T+228.4	-
Jul 22 2020	Globalworth Real Estate Investments green	€400m	Jul 29 2026	2.95	97.69	MS+375/B+408.5	3.381
Jul 23 2020	Ukraine	US\$2bn	Mar 15 2033	7.253	100	T+666.4	7.25
LATAM							
Jul 20 2020	Braskem	US\$600m	Jan 23 2081	8.5	100	T+822	8.5
Jul 22 2020	Banco Votorantim	US\$500m	Jul 29 2025	4.375	100	-	4.375

of sovereigns that have raised funds twice in the international markets since the outbreak of Covid-19.

The pandemic has meant several countries have had to redraw their borrowing plans for the year.

Lithuania (A3/A+/A), which raised €2bn in late April through a five and 10-year, returned for duration and achieved a coupon that was markedly lower than those for previous 30-year issues in 2017 and 2019 of 2.1% and 1.625%, respectively.

Pricing came at 65bp over swaps from guidance of 80bp–85bp.

Estimates of where fair value lay varied from 60bp at one end to 70bp at the other.

One banker away from the deal said it was in the high 60s to 70bp based on the 10s/30s

curves of some other eurozone sovereigns.

Another banker away from the trade said, however, fair value was more like 60bp based on the relatively high coupon and cash price of the 1.625% 2049s, which are bid at 128.89, according to Refinitiv.

A lead said fair value was in the low to mid 60s though he acknowledged that Lithuania's "curve isn't straightforward".

He saw the pick-up between the 2030s and 2035s at 8bp, but between the 2029s and 2030s at 20bp. Meanwhile, he spotted the 2047s at plus 57bp and the 2049s at 54bp.

The deal launched with pre-reconciled orders of more than €6bn, although final books showed demand had fallen back to over €4.75bn.

The funds will be used for general financing purposes, including a US\$1.35bn Eurobond redemption in 2021.

BNP Paribas, Citigroup and Erste Group were lead managers.

RUSSIA

RUSAL WRAPS UP BUYBACK

Russian aluminium company **RUSAL** has accepted for purchase around US\$88.5m across its 5.125% 2022s and 5.30% 2023s.

Boldholders submitted nearly US\$80m of the 2022s and almost US\$9m of the 2023s.

The company said it was conducting the exercise in order to provide noteholders the

Pricing steps	NIP (bp)	Book size	Ratings	Bookrunners	Distribution
T+190 area, T+145 area	-	US\$2.5bn, 167acs	Baa1/BBB	Citi/CA-CIB/HSBC/JPM	Asia 92%, EMEA 8%. AM/FM 70%, Bks 15%, Ins/PI 10%, PB/Other 5%.
7.25% area	-	-	-	CS/PNB	-
5.875% area, 5.5%	-	-	-	BofA/StCh/DBS	-
T+190 area, T+145 area	-	US\$4.6bn, 144acs	A2/-/A	ICBC/BOCI/JPM/BOCOMI/BofA	Asia 91%, EMEA 9%. AM 43%, Bks 30%, FI 17%, SWF/CB 10%.
10% area, 9.45%	-	US\$2.5bn, 156acs	-/-/B+	UBS/Barc/BNPP/DB/MS/Haitong	Asia 93%, EMEA 7%. AM/FM 88%, Bks 2%, PB 10%.
3.8%a, 3.15%/3.2%	-	US\$4.5bn, 91acs	Baa3/-/BBB	CCBI/BoC/Huatai/DBS/StCh/BOCOMI/Everbright HK/CLSA/CMBC Cap/WingLung/Guotai Junan/ICBCI/Industrial/SPDB/TF	Asia 99%, EMEA 1%. Bks/FI 80%, FM/AM 19%, Ins/Corp/SWF/PB 1%.
4.75% area, 4.5% (the #)	-	US\$1bn, 85acs	-	BPICap/Citi/CS/HSBC/Miz/UBS	Asia 79%, Eur 21%. FM 57%, PB 19%, Ins 14%, Bks 10%.
4.625% area, 4.375% (the #)	-	-	>US\$bn	Citi/HSBC/CS/JPM	Asia 92%, EMEA 8%. Bks 54%, AM/FM 39%, PB 7%.
3.25% area	-	US\$1.3bn, 62acs	P-2/-/A-	StCh/BNPP/CMBI/Haitong/Huarong Intl/CMBCHK/WingLung/ICBCI/BOCOMI/CICC	Asia 98%, EMEA 2%. PB 48%, Bks/FI 37%, FM/AM 13%, Ins/Trust 2%.
3mL+125 area	-	>US\$2.1bn	Baa2	SPDB/BoCom/CMBCHK/GuotaiJunan/Haitong/ICBC/Industrial/MUFG/SPDBI/ABChina/AMTD/BEA/BoC/CCBI/EverbrightHK/CICC/Citi/CNCBI/Chiyu/CA-CIB/DBS/Nanyang/StCh/SPDBSing	-
T+200a, T+150/+155	-	US\$3bn, 90acs	A2	ICBC/HSBC/ABCHK/ANZ/BoC/CCBA/CMBCHK/CMBC Cap/Miz/ABCI/CCBI/CNCBI/Everbright HK/Wing Lung/Maybank/Nanyang/SPDB	Asia 87%, EMEA 13%. Bks 52%, FM 41%, PI 7%.
T+250 area, T+205/+210	-	US\$1.65bn, 112acs	Baa2/BBB	Citi/Daiwa/HSBC/Mirae/SG	Asia 91%, EMEA 9%. AM/FM 67%, Bks 16%, Ins/PI 13%, PB/Corp 4%.
T+290 area, T+245/+250	-	US\$1.9bn, 148acs	Baa2/BBB	Citi/Daiwa/HSBC/Mirae/SG	Asia 88%, EMEA 12%. AM/FM 79%, Bks 9%, Ins 8%, PB/Corp 4%.
MS+80/+85	-	€4.75bn	A3/A+/A	BNPP/Citi/Erste	-
MS+265 area, MS+240 area	-	US\$600m	A2/A-	HSBC/JPM/SG	-
MS+400 area, MS+380 area	-	~€900m	Baa3/BBB-/BBB-	DB/JPM/BcalMI/SG/Uni	-
7.75% area, 7.5% area, 7.3% area (+/-5), 7.25%.	-	>US\$4bn	-/B/B	GS/JPM	-
High 8% area, 8.50% (the #)	-	-	B+/BB-	BNPP/MS/Santan/Itau/SMBC/StCh	-
High 4%a, 4.375%	-	-	Ba2/BB-	BBSec/BofA/Brad/GS/Itau/JPM/Safra	-

chance to access liquidity ahead of the bonds maturing. The purchase was to be carried out with cash on hand.

Citigroup and *VTB Capital* were dealer managers.

SOUTH AFRICA

PROSUS PLOTS EURO VENTURE

PROSUS, the international internet assets division of Naspers, is preparing a dual-currency transaction as it feeds euros into its funding mix.

Prosus is planning US dollar-denominated 30-year and euro-denominated eight-year and 12-year benchmark-sized tranches.

“The focus on euros is driven by their European domicile and headquarters and desire to diversify funding sources,” said a lead.

Last year a corporate reshuffle at Naspers saw the company spin off its media assets and list the internet assets – Prosus – in Amsterdam. Naspers, though, still retains a 74% stake in Prosus.

It means that Naspers has more or less disengaged from its South African roots with its assets international and its legal base in Europe. Prosus has investments in companies such as Tencent, Mail.ru and Delivery Hero.

“Their business model has been very consistent over a number of years,” said the lead.

Prosus recently explored buying eBay’s classified-ads business and previously launched a cash bid for UK food delivery service Just Eat, but ultimately did not proceed with either transaction.

Like all companies Prosus is having to deal with the financial fallout from Covid-19. On June 18, management warned the outbreak could hurt its performance in the post-March period, without giving further details.

“While the global societal and economic impacts of Covid-19 are likely to persist for some time, we are confident of our ability to weather the storm,” said Bob Van Dijk, the chief executive.

The warning came ahead of the company announcing net profit for the year ended March 31 rose a better than expected 6.7% to US\$3.82bn, helped by strong growth at its biggest investment Tencent. Prosus holds a 31% stake in the Chinese technology company.

However, the operating loss at operations Prosus owns outright – which include online classifieds, payments, and food delivery businesses – widened to US\$593m from US\$422m in the same period a year earlier.

Prosus (Baa3/BBB–) was last in the market in January with a US\$1.25bn 10-year bond that priced at 185bp over Treasuries. That bond is now bid at plus 240bp.

Bank of America, *BNP Paribas*, *Citigroup* and *Morgan Stanley* are global coordinators for the latest offering.

REGIONAL

GLOBALWORTH SIGNS UP TO THE GREEN GANG

CEE property company **GLOBALWORTH** joined its regional peers in printing a green bond, as it sold a €400m six-year debut in the format on Wednesday.

The company, whose business is commercial real estate investment in Romania and Poland, followed in the footsteps of CPI Property and NEPI Rockcastle as it entered the green market.

“This was like the Last of the Mohicans,” said a lead. “But the big difference is firstly Globalworth is not ECB-eligible because the issuing entity is in Guernsey. And even though it’s not ECB eligible, the bonds did not have a step-up.”

The lead said that Globalworth (Baa3/BBB–) did not include the step-up as the structure is not present in its bonds maturing in 2022 and 2025, issued when the company was rated as a high-yield and then a crossover credit.

“Investors have generally wanted the step-up but for Globalworth they were much more open to no step-up as the existing bonds didn’t have them,” he said.

NEPI Rockcastle and CPI Property had both issued their recent bonds with step-up coupons stripped out in order to make the notes ECB-eligible.

NEPI Rockcastle (BBB/BBB) sold a €500m seven-year green note at the beginning of July at 395bp over swaps, which represented a 20bp premium. That bond has since tightened in a touch to 392bp.

In May CPI Property (Baa2/BBB) printed a €750m due 2026 green bond with a 15bp premium at 345bp over swaps, which is bid at 270bp.

Globalworth initially began marketing its note with IPTs of swaps plus 400bp area. The company was also running a concurrent tender, expiring on July 24, on its €550m due 2022s for up to €400m.

“We had very good visibility on the submissions of the tender on Wednesday as investors were very forthcoming with their existing holdings and intentions to

tender,” said the lead. “If they gave visibility on that then they were given preferential allocations.”

Pricing landed at 25bp inside IPTs, with a 25bp concession. The premium was higher than that paid by CPI, which the lead put down to the ECB eligibility and benchmark size of CPI’s trade.

“Globalworth don’t need the cash to do €500m, and a tap is always a strong possibility down the line,” said the lead. “The aim was to get €200m minimum from the tender and they only needed €200m new cash.”

The bonds were issued at a discount, with a reoffer price of 97.694 and a coupon of 2.95%, bringing the new coupon close to the 2.875% on the 2022s.

Final orders were around €900m, with dedicated real estate investors dominating the books. There was also minor participation from high-yield accounts, while dedicated green funds also came into the transaction.

Globalworth had an overall real estate portfolio with a combined value of about €3bn at the end of 2019. Of that €2.3bn worth was green certified.

Proceeds from the deal will go towards financing or refinancing projects geared towards energy efficiency and emissions reductions.

Global green issuance saw a big uptick in the second quarter with about US\$50bn of issuance. In total, more than US\$80bn of green bonds have been issued this year, though that is down on the nearly US\$100bn sold by this stage in 2019.

Deutsche Bank and *JP Morgan* were global coordinators and they were joined as bookrunners by *IMI-Intesa Sanpaolo*, *Societe Generale* and *UniCredit*.

BSTDB CONDUCTS TAP AND SWITCH TENDER

BLACK SEA TRADE AND DEVELOPMENT BANK tapped its US\$400m 3.5% due 2024s for US\$150m at 225bp over swaps on Wednesday, 40bp inside IPTs.

The reopening, which was initially targeted at a plus US\$100m size, was run alongside a switch tender offer on the supranational’s US\$500m 4.875% due 2021s.

The combined tap and switch books were around US\$600m.

BSTDB (A2/A–) was last in the market just over a year ago to price the 2024s, which came at 175bp over swaps. The note has since widened to 223bp.

HSBC, *JP Morgan* and *Societe Generale* led the offering.

AMERICAS

ARGENTINA

PAMPA DELAYS BOND PAYMENT AS CAPITAL CONTROLS BITE

The complications of making dollar bond payments under Argentina's capital controls came to the fore last week after **PAMPA ENERGIA** entered the grace period on its 2023s bonds despite having the cash available to stay current on the debt.

The blue-chip credit said that it would make the US\$18.4m interest payment due on July 21 within the 30-day grace period, attributing the delay to the extension of the period in which it can access the foreign exchange markets.

"We reaffirm that the aforementioned deferral does not constitute an event of default for the 2023s, according to its terms and conditions, given that the company will proceed with the payment within the grace period established in the indenture that governs the 2023," it said.

Those bonds traded down to 89.44 on the news, only to bounce back to 91.31 on Thursday afternoon, up more than a point on the day, according to MarketAxess data.

Fitch said last week that Pampa had sufficient liquidity to service its debt, but that the move "highlights the risks and uncertainties arising from the capital control rules in Argentina rather than the company's inability to service its debt."

The rating agency noted that Pampa's consolidated cash position stood at US\$577m as of the first quarter and that it expects debt to average 2x between 2021 and 2023.

Indeed, the company has been taking advantage of low secondary levels to scoop up its dollar bonds on the cheap, including the 2023s, of which it recently bought US\$2.2m in face value.

Even so, capital controls have complicated bond payments for corporate Argentina.

"Pampa has not been the first big, local company that found itself in such a temporary bind and treasury teams across our coverage comment on having a very hard time optimising cash management under the new guidelines," said an analyst.

With no access to the capital markets, the government has been trying to preserve valuable hard currency assets as it negotiates with bondholders to restructure more than US\$65bn of debt.

On May 28, the central bank tightened capital controls, saying that corporates must

Bondholders unite to counter proposal

■ ARGENTINA Impasse still as clock ticks down

The three main bondholder groups put on a united front last week, countering **ARGENTINA's** latest proposal to restructure more than US\$65bn of bonds, only to be promptly rebuffed by the government.

The Ad Hoc Argentine Bondholder Group backed by BlackRock and a group holding bonds from prior exchanges – which have typically issued statements together – teamed up with the Argentina Creditor Committee with a rare joint proposal.

"The news is positive because it shows they are still willing to reach a solution as opposed to taking a step back and entering a stalemate," said Siobhan Morden, head of Latin America fixed-income strategy at Amherst Pierpont.

"But they haven't broken the impasse and we are not there yet."

Indeed, Argentina was quick to say they had no more room to negotiate after making their own counter earlier this month.

"We see in this group of creditors a lack of understanding about the restrictions that Argentina faces," Economy Minister Martin Guzman said in a statement.

With the difference in terms so small, markets are hoping that both sides can find face-saving tweaks to somehow bridge what is now considered a minuscule gap.

Analysts say that creditors' new proposal pushes up the average coupon on the new debt from 3.07% to around 3.6%, which XP Investments strategist Alberto Bernal says is level to where Single A rated Chile is trading.

"The offer from the compendium of bondholders would increase Argentina's yearly debt servicing cost as a proportion of GDP by

only five basis points," he wrote. "In other words, nothing."

Morden calculates that the net present value claim on the new deal averages around 55.7 against the government's current offer of 53.

"We believe we are almost there," wrote Bernal. "The difference amounts to some three points in the NPV of the offer."

Together the creditor groups may have an upper hand, holding what Morden calculates could be 40%–45% of the outstanding debt stock.

"The fact that three groups have unified is a significant step," said Stuart Culverhouse, global head of research at Tellimer.

The three groups said last week that along with the joint proposal, they had also signed a cooperation agreement affirming that Argentina's "current offer falls short".

The creditor groups' statement revealed few details about their counterproposal except that it provided short-term debt relief and the necessary legal framework to encourage future investment in the country.

It also said that the joint proposal contained significant economic and legal concessions, such as allowing for the new bonds to be governed by an amended version of the 2016 indenture.

This had been a sticking point for holders of the bonds issued under prior exchanges who had been reluctant to relinquish what they saw as stronger legal protections.

Hopes that a deal can be cut in coming weeks helped push sovereign bond prices higher last week. The Century bond was trading a good two points higher on the week at 43.00 on Thursday, while the 5.875% 2028s was up close to three points at 42.80.

Paul Kilby

first use offshore dollars to make payments on international bonds before turning to the local FX market to convert peso earnings to dollars.

It also took some companies off guard by extending the period to access the FX market from 30 to 90 days.

Such rules go against the better instincts of treasurers, who have done all they can to avoid using precious offshore dollars at a time of great uncertainty for the country.

Pampa, for instance, decided to use some of those offshore funds to invest in illiquid securities as a way of gaining access to the local FX market, said Lorena Reich, an analyst at Lucror Analytics.

And the energy company's decision to enter the grace period on the 2023s was seen as just another way of avoiding the use of offshore dollars.

Yet, while the preservation of dollars is seen as beneficial to the company and creditors, some analysts have wondered whether such tactics are worth all the fuss.

"For US\$18m it is creating a lot of noise around the name, so it is probably not a good idea," Reich said.

Either way, the 90-day lock-out period from the local FX market that started on May 28 is expected to end before the expiration of the 30-day grace period on the

2023s, leaving Pampa ample time to garner the necessary dollars for payment.

Officials at Pampa Energia did not respond to request to comment by press time.

BELIZE

BONDHOLDER GROUP BACKS CONSENT SOLICITATION

A bondholder group backed by funds such as Greylock and GMO last week came out in support of **BELIZE**'s recent efforts to delay payments on its 2034 bond.

The small Caribbean nation launched a consent solicitation on July 17 asking to capitalise interest due in August and November this year as well in February 2021.

Those payments, which represent 1.5% of GDP "will simply not be available", said the government earlier this month, offering holders a consent fee of 0.125% of face value.

"The outbreak of Covid-19 has hit the economy of Belize hard. The

lockdown has already led to a contraction of 4.5% of GDP in Q1 of 2020 and the contraction during Q2 is expected to be far steeper," Joseph Waight, Belize's Financial Secretary, said in a statement.

A steering committee of bondholders said last week that it "intends to assent to the request for bondholder approval contained in Belize's consent solicitation".

That is partly based on the understanding that an information covenant would be added to require the Belize authorities to provide quarterly updates on economic developments, as well as debt stock and servicing projections.

The consent solicitation comes just three years after the Central American nation hammered out with creditors what at the time was its third restructuring agreement in a decade.

The 4.938% 2034 issue – the so-called super bond that emerged from the last restructuring – was trading at 42.80 last week, up from 37 on July 6, according to MarketAxess data.

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Middle East

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Standard Chartered	29	11,928.04	14.6
2	Citigroup	24	10,647.98	13.0
3	HSBC	27	9,199.25	11.2
4	Goldman Sachs	7	7,995.20	9.8
5	Deutsche Bank	10	5,878.94	7.2
6	JP Morgan	14	4,057.13	5.0
7	Bank of America	5	3,784.54	4.6
8	Credit Agricole	12	3,725.24	4.6
9	First Abu Dhabi	13	3,482.67	4.3
10	Barclays	6	2,494.03	3.0
Total		84	81,823.86	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L5

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Latin America

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	34	9,349.92	11.7
2	Bank of America	29	6,424.47	8.1
3	Citigroup	20	6,356.28	8.0
4	Deutsche Bank	10	6,311.66	7.9
5	Itau Unibanco	18	5,637.41	7.1
6	Goldman Sachs	26	5,526.84	6.9
7	Scotiabank	16	4,953.27	6.2
8	BNP Paribas	12	4,763.02	6.0
9	HSBC	13	4,440.36	5.6
10	Santander	16	3,772.97	4.7
Total		88	79,659.35	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L3

BRAZIL

BRASKEM DEBUTS HYBRID AS IT SEEKS FINANCIAL FLEXIBILITY

Brazil's **BRASKEM** tried its hand at its first ever hybrid security last Monday as it looked to manage deteriorating leverage metrics in the face of a downturn stemming from the Covid-19 pandemic.

Hybrid bonds are rare in Latin America and because they get equity credit from the rating agencies, they are often used by companies that wish to raise funding but want to avoid downgrades from worsening leverage metrics.

However, the petrochemicals company had already fallen into junk territory earlier this month when Fitch and S&P both cut their ratings by a notch to BB+, raising questions about the logic behind the deal.

"Investors were asking why Braskem was paying up for this type of funding after it got downgraded when they should have done it before the downgrades," said one banker away from the trade.

Once considered a top Brazilian blue-chip name, Braskem has been suffering from the effects of a downturn in the petrochemical cycle, which began in 2019 and was exacerbated by the Covid-19 crisis.

Fitch projects Braskem's Ebitda, excluding Mexico, will remain depressed in 2020 and 2021 at R\$5.7bn (US\$1.11bn) and R\$6.5bn.

That compares with R\$4.3bn in 2019 and R\$9.5bn in 2018 and 2017, it said.

Against that backdrop, the deeply subordinated notes give the company financial flexibility and potential liquidity as it faces diminishing demand for global chemicals.

"There is nothing behind the timing really. The deal is more for them to improve their capital structure and have more extra cash," said a source who said the deal had been in the works for a while.

The hybrid security, which ranks just above equity in the capital structure, allows for cumulative coupon deferrals, has limited events of default provisions and no material covenants.

Moody's calculates that after this transaction, Braskem's unrestricted cash position will be around R\$17.6bn (US\$3.3bn), allowing it to cover all debt maturities through to mid-2024.

The 50% equity credit should also result in an improved, albeit minor, adjustment in its leverage metrics.

After accounting for the equity treatment, S&P foresees a reduction of about 0.3x in the company's leverage, which is expected to be at 3.5x–4.5x by year end and at 3x–4x by the end of 2021.

INTERNATIONAL ISLAMIC FINANCE DEBT

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Standard Chartered	14	2,552.21	16.7
2	HSBC	11	1,871.25	12.3
3	Dubai Islamic Bank	9	1,369.63	9.0
4	Natixis	3	785.53	5.2
5	First Abu Dhabi	7	780.25	5.1
6	Citigroup	6	770.24	5.1
7	Islamic Dev Bank	6	746.75	4.9
8	Emirates NBD	8	650.58	4.3
9	Malayan Banking	1	500.00	3.3
10	BNP Paribas	1	500.00	3.3
Total		17	15,242.60	

Excluding equity-related debt.

Source: Refinitiv

SDC code: J27

ALL INTL EMERGING MARKETS BONDS

BOOKRUNNERS: 1/1/2020 TO DATE

Europe/Africa

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	JP Morgan	35	12,560.22	16.2
2	Citigroup	24	10,067.44	13.0
3	BNP Paribas	15	6,558.84	8.4
4	Deutsche Bank	10	4,729.72	6.1
5	SG	13	4,561.65	5.9
6	HSBC	12	3,830.65	4.9
7	Barclays	9	3,520.29	4.5
8	UniCredit	9	3,210.49	4.1
9	ING	8	3,114.93	4.0
10	Erste Group	6	2,982.31	3.8
Total		63	77,668.26	

Excluding equity-related debt.

Source: Refinitiv

SDC code: L2

Ecuador debt talks turn boisterous amid bondholder protests

■ DEBT RESTRUCTURING Government rejects Amundi-backed proposal

Long held up as a friendly bond restructuring, **ECUADOR**'s debt talks suddenly got more boisterous last week when one creditor group took umbrage to the government's rejection of its counter offer.

The Economy Ministry was quick to reject a counter proposal announced earlier this month by a Steering Committee of bondholders, which adds some long-term incentives, including ESG triggers on a new bond.

Ecuador called the proposal a "lose-lose" proposition, arguing among other things that the interest rates in the plan were too high.

In a strongly worded letter to Ecuador's legal representative Hogan Lovells, the Steering Committee – backed by Amundi and T Rowe Price – expressed its dismay at the country's decision to move forward with a plan agreed with BlackRock without taking on board its proposals.

Objecting to the tight timeframe to sign on to a consent solicitation by July 31, the group accused the government of using "high pressure tactics to force an unfavourable deal upon investors".

Calling the deal "coercive", the committee said that "Ecuador has insisted that bondholders decide within a timeframe of only 10 days whether to accept this exchange offer, lest they

risk further losses in the form of accrued and unpaid interest."

It accused the Republic of potentially violating provisions in the bonds eligible for the exchange by providing bondholders who do not participate with less favourable terms.

It also said that proposed modification would reduce thresholds required to change terms and issue new notes.

"Ecuador's proposal would eviscerate the covenants that were bargained-for to protect the bondholders who agreed in good faith to invest in these securities," it said.

The objections from the Steering Committee have complicated what has up until now been an orderly restructuring process, albeit with pending risks regarding an IMF agreement.

"The markets seem complacent about not only the IMF condition but the implications in terms of deal risk on the restructuring and budgetary stress in terms of financing shortfall," wrote Siobhan Morden, head of LatAm fixed income strategy at Amherst Pierpont.

The government's outright rejection of the Amundi-backed proposal surprised some market participants who had been expecting more give-and-take with holders outside the BlackRock camp, but it may indicate confidence

in Ecuador's ability to get the deal done under current terms.

BlackRock did not immediately respond to a request for comment.

"Either they have some conviction that they will have sufficient participation to push this through or they may eventually come through with a counter proposal," said Sarah Glendon, senior analyst at Columbia Threadneedle Investments.

Whether Ecuador can push through the deal as it stands remains unclear, though the government said last week informal support has reached nearly 60% for a consent solicitation that was launched on July 20.

That puts it within touching distance of the 66.66% aggregate threshold across outstanding bonds to get the deal passed.

The consent solicitation is being seen as an facsimile of the deal the sovereign agreed to with the Ad Hoc Committee comprising BlackRock.

The offer involves swapping US\$17.375bn of bonds maturing between 2022 and 2030 for up to US\$15.834bn of three new bonds – a 2030, 2035 and a 2040 – plus a past due interest bond due 2030.

Paul Kilby

In the end, Braskem raised US\$600m through the 60.5-year non-call five issue, which priced at par to yield 8.5%, tight to initial price thoughts of high 8s, on the back of a US\$1.3bn book.

The bond, rated B+/BB-, carries a coupon step-up of 25bp after 10.5 years and an additional step-up of 75bp after 20.5 or 25.5 years, according to Moody's.

Construction firm Odebrecht holds 50.1% of the voting capital of Braskem, with Brazilian state-controlled oil firm Petrobras holding another 47%.

■ BANCO VOTORANTIM STEPS BACK INTO US DOLLAR MARKET

Brazil's **BANCO VOTORANTIM** returned to the international bond markets last Wednesday when it raised US\$500m through a five-year senior note that saw final order books fill to US\$2bn.

Decent demand allowed leads to tighten from initial price thoughts of high 4% before landing the deal at par to yield 4.375%.

Banco Votorantim, which is partially owned by state-owned Banco do Brasil, last came to market in September when it raised US\$850m through two-part deal.

At the time it priced a 4% 2022 and 4.5% 2024 at par. The 2024 bond has been trading in the low 4% area most of July and tightened all the way to 3.84% on Wednesday, according to MarketAxess data.

"The deal will end up pricing closer to where I see fair value, at around 4% flat to 4.125%, StoneX analyst Rafael Elias wrote in a report last Wednesday.

"Anything above that I would consider attractive."

The bank has been seen as potential acquisition target, but most recently the two owners had been planning an IPO for BV, Banco Votorantim's new name, reports Reuters.

In the first quarter, the bank's return on equity fell to 8.9% versus 13.1% in the fourth quarter and 14% in the first quarter of 2019.

While revenues grew to R\$2.177bn (US\$422m) in the first quarter, up from R\$2.165bn from the fourth quarter, the bank also saw provisioning for losses increase

substantially in the face of the economic impact caused by the Covid-19 pandemic.

The bank's return to the dollar market may indicate that the swap back to local currency is more favourable for Brazilian issuers, including the bank, said a buy-side source.

"They are probably swapping back to the CDI [rate]," he said.

"I am sure the cross-currency swap was good enough for them to pull the trigger or at least get them the same level as the local market but with more size and visibility."

BB Securities, Banco Bradesco BBI, Banco Safra, Bank of America, Goldman Sachs, Itau BBA, and JP Morgan led the transaction. Ratings are Ba2/BB-.

COLOMBIA

■ PLANS FOR DEBUT NOMINAL 30-YEAR COLTES MAY BEAR FRUIT

COLOMBIA's plans to issue its first 30-year nominal rate peso bond may soon bear fruit

as the country's finance ministry pushes ahead with a deal that has been in the works for more than a year.

Monetary easing in Colombia and across the developed economies, not to mention more stable oil and FX markets, may set the stage nicely for such a deal as foreign investors seek yield pick-up in a low rate environment.

The finance ministry said last month that it aimed to issue in the second half of 2020 a peso-denominated Treasury bond, or TES, due 2050 through a local syndication process rather than the standard auction.

Cesar Arias, the country's director of public credit, has been exploring this idea for some time and recently mandated BBVA, Citibank and Bancolombia to lead the transaction.

In April last year, Arias told IFR that he was thinking of selling the deal through a bookbuilding process so that both domestic and international investors would be able to participate.

The backdrop may be ripe for such an issue given the massive monetary easing being conducted throughout the developed world which is encouraging investors to seek yield elsewhere.

At the same time, emerging market countries are facing higher funding needs in the face of the Covid-19 health crisis, forcing them to be creative in how they raise financing.

"With central banks pushing rates down, investors are being forced to look for

opportunities elsewhere and going out the risk curve," said Alejo Czerwonko, chief investment officer for emerging markets at UBS Wealth Management.

"When you see 10-year Treasury rates at 0.62% and 10-year Bunds at -0.46%, Colombia will draw interest if they compensate for the risks involved."

Colombia, which is also an oil producer, has been hit by the global pandemic and the rout in crude prices earlier this year.

The country's economy shrank 16.65% in May year-on-year, as lockdowns took their toll, according to Reuters.

But crude prices have stabilised as has the Colombian peso, which was trading at around Ps3,635 against the dollar on Wednesday, down from the Ps4,178 seen on March 23, according to Refinitiv data.

All this could bode well for appetite among foreign accounts, at least those willing to play in the local market and with a bond that is not Euroclearable.

"I like the long end of the local currency curve because it is quite steep. It seems it is pricing in some of the fiscal deterioration that the market expects post Covid," Sarah Glendon, senior analyst at Columbia Threadneedle Investments, said earlier this month.

"The market could have decent appetite (for a new 30-year nominal bond). The central bank has cut rates by 175bp since March and I believe they have 50bp more to go. That could be supportive as well."

PANAMA

BANISTMO PREPARES US DOLLAR BOND

Panamanian bank **BANISTMO** has named leads to deal an upcoming dollar note.

Bank of America, Citigroup and JP Morgan are the bookrunners on the deal. Calls took place last week.

The new deal is expected to comprise a US dollar-denominated 144A/Reg S benchmark note of intermediate maturity.

Expected ratings on the deal are Baa3 (stable) by Moody's and rated BBB- (negative) by Fitch.

The bank is wholly owned by Bancolombia.

REGIONAL

CAMEBO READIES BOND TAP

The Central America Bottling Corporation (**CAMEBO**) is readying for a potential tap of its US\$500m 5.750% 2027 note.

The company, which produces and distributes beverages for PepsiCo LatAm, has named *Citigroup* and *JP Morgan* as global coordinators and active joint bookrunners and *Scotiabank* as a passive bookrunner.

Camebo has also announced consent solicitations to holders of the 2027 notes and its 8% senior unsecured 2029s.

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FRONT STORY ASIA-PACIFIC MARKETS

Aussie borrowing costs jump

Cost of three-year loans spikes to six-year high amid pandemic

Non-bank lenders are also reassessing corporate pricing benchmarks

Australian companies are coming to terms with higher borrowing costs, as the country faces its first recession in almost three decades amid the coronavirus pandemic.

Average three-year loan margins have jumped in 2020 to levels not seen for six years, according to Refinitiv LPC data. Investment-grade borrowers are paying an average of 143bp, up from 85bp in 2019, and speculative or unrated issuers 348bp, compared with 217bp last year.

A glut of financings from hard-hit sectors such as travel and energy have pushed average margins higher, but less-affected borrowers have also had to pay up as banks grow more risk-averse.

"The cost of capital for the banks is more expensive, and that is going to be passed through to borrowers through increased margins," said Gavin Chappell, head of syndications for Australia at ANZ.

"Should we have a broader global economic fallout and many more borrowers facing downgrades and defaults over the next six to 12 months, that will place a significant burden on banks' capital positions. This capital issue could have an impact on the banks' capital base and as such a bank's ability to lend, thereby impacting overall market liquidity."

Blue-chip companies such as energy retailer Origin Energy, construction and

property group Lendlease Group and flag carrier Qantas Airways are among those paying up to borrow from banks as their businesses have succumbed to virus-induced lockdowns and a plunge in oil and gas prices.

Moreover, unrated or non-investment grade companies from sectors that are seemingly resilient to the pandemic such as telecoms, data centres and critical infrastructure maintenance operators – including Vocus Group, TPG Telecom, AirTrunk and Ventia – are also seeing their loan costs rise.

"There will no doubt be a level of caution from investors given differing views on the local economic outlook," said James Poulos, head of loan markets and syndications for Australia and New Zealand at MUFG.

"New client money may be harder to get hold of without an appropriate cost premium, as banks are focusing on existing key clients and defensive sectors."

Australia's A\$2trn (US\$692bn) economy shrank 0.3% in the first three months of 2020 as many businesses were forced to shut to contain the spread of the coronavirus. If the Australian Bureau of Statistics confirms another contraction in the second quarter – usually announced in September – it would mark the country's first recession since the early 1990s, ending the developed world's longest growth streak.

S&P estimates Asia-Pacific will lose US\$2.7trn of economic output this and next year as a result of the pandemic, with GDP trends normalising in 2023 at the earliest.

"We expect most institutions in the region will show a multi-fold rise in credit losses and a sharp drop in earnings in the next two to three years due to the Covid-19 induced economic downturn," said Sharad Jain, a credit analyst at the ratings firm.

REASSESSING RISK

Based on the current climate, non-bank lenders are also reassessing corporate pricing benchmarks and weighing appropriate risk returns.

"Some transactions are being done on terms and conditions that you might think are aggressive, and then there are others where margins, pricing and terms and conditions seem overly generous to lenders," said Andrew Lockhart, managing partner for Metrics Credit Partners in Sydney.

"That suggests to me that we haven't got to a position where you've got enough consistency of transaction volume for the market."

Syndicated and club loan volumes in Australia bucked the downward trend seen in most major markets across Asia-Pacific in the first half, rising nearly 20% year-on-year to US\$45.1bn.

Refinancing, amendments and extensions drove the bulk of activity as borrowers sought to shore up liquidity amid the pandemic.

However, it remains to be seen whether Australia will be able to produce similar volume numbers in the second half given that most of the companies with urgent liquidity needs have already completed their fundraising plans in the first half.

"Demand for financing is very high, particularly in commercial real estate lending and event-driven acquisition finance transactions," said Metrics' Lockhart. "We see good deal flow and activity for a lot of private equity sponsors that have got a lot of capital and are looking to deploy that into opportunistic transactions."

Mariko Ishikawa

AUSTRALIA LOAN MARGIN COMPARISON

Date	Borrowers	Maturity (Years)	Margins (bp)
July 2020	AirTrunk	5	450
April 2019	AirTrunk	5 (1L) / 5.5 (2L)	275 (1L), 800 (2L)
July 2020	Origin Energy	4	175
Feb 2019	Origin Energy	7 (A\$ & US\$), 7.4 (A\$)	155 (A\$), 120 (US\$), 162.5 (A\$)
June 2020	Lendlease Group	2	250
May 2019	Lendlease Group	5	160 (TL), 165 (RCF)
June 2020	Vocus Group	2.25, 3.25, 4.25	290, 310, 330
July 2018	Vocus Group	2.25, 3.25, 4.25	200, 215, 230
June 2020	TPG Telecom/Vodafone Hutchison Aus	3, 5	190, 210
Jan 2019	TPG Telecom/Vodafone Hutchison Aus	3, 5	110, 130 (2.00x-2.50x)
June 2020	Ventia/Broadspectrum	~6	550 (A\$), 400 (US\$)
June 2019	Ventia	~7	462.5 (A\$), 350 (US\$)
April 2020	One Rail Australia (Genesee Wyoming)	5, 7	285-350, 305-350
Dec 2016	Genesee Wyoming Australia/Grail	5	290
April 2020	Scape/Urbanest	2, 3	155, 165
Oct 2019	Scape/Atira	2, 3	175, 185

Source: Refinitiv LPC data

ASIA-PACIFIC

AUSTRALIA

OMERS FUNDS TRANSGRID STAKE

Canada's Ontario Municipal Employees Retirement System has obtained a A\$700m (US\$388m) club loan to back its acquisition of a stake in Australian energy transmission firm TransGrid.

ANZ, Commonwealth Bank of Australia, Bank of China, Mizuho Bank, Natixis and Societe Generale are the lenders for the three-year loan.

MCGAVIN INFRASTRUCTURE is the borrower.

Omers has acquired a 19.99% stake in TransGrid from Wren House Infrastructure, a subsidiary of Kuwait Investment Authority.

Wren House's stake in TransGrid was offered to security holders in February in accordance with a pre-emptive process, according to Spark Infrastructure, which purchased a 15.01% stake in the company in December 2015.

TransGrid also counts Caisse de depot et placement du Quebec (25%), Abu Dhabi Investment Authority's Tawreed Investments (20%) and Utilities Trust of Australia (20%) as shareholders.

In November, the company's unit TransGrid Services raised a A\$355m five-year loan from ANZ, BNP Paribas, Mizuho, RBC Capital Markets and SocGen, with RBC acting as adviser.

In June 2018, NSW Electricity Networks Finance, the borrowing entity for TransGrid, completed a A\$4.21bn refinancing split into seven tranches with tenors ranging from three to eight years.

Fifteen banks participated in the refinancing.

ASIA-PACIFIC LOANS BOOKRUNNERS – FULLY SYNDICATED VOLUME (INCLUDING JAPAN) BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Mizuho	262	60,029.79	20.9
2 MUFG	421	43,428.96	15.1
3 Bank of China	191	37,346.26	13.0
4 Sumitomo Mitsui	313	31,599.15	11.0
5 ANZ	38	7,838.95	2.7
6 DBS Group	25	5,424.25	1.9
7 HSBC	38	5,227.75	1.8
8 China Merchants	13	5,215.44	1.8
9 Citigroup	17	4,873.25	1.7
10 Ag Bank of China	12	4,535.10	1.6
Total	1,540	286,765.61	

Proportional credit
Source: Refinitiv

SDC code: S3a

BLACKSTONE COMPLETES A&E

Blackstone Group has amended and extended a four-year acquisition loan from 2016 and reduced its size to A\$238m.

Bank of China, ING Bank, KEB Hana Bank, Mega International Commercial Bank, Shinhan Bank, State Bank of India, United Overseas Bank and Westpac are the lenders.

The maturity has been extended by a year to June 2021, while pricing is unchanged.

Lenders received an amendment fee for the A&E exercise.

GLASS FINANCE is the borrower on the original A\$428.775m four-year loan that closed in 2016 and funded Blackstone's acquisition of three shopping malls – Clifford Garden, Forest Hill Chase and Brimbank Shopping Centre – in Australia from Vicinity Centres.

The 2016 loan offered opening interest margins of 205bp over BBSY based on a loan-to-value ratio of less than 60%. The loan was split into a A\$393.775m term loan, a A\$30m capital expenditure tranche and a A\$5m working capital tranche.

The deal featured a step-up in pricing to 215bp if the LTV increased to over 60% when the capital expenditure and working capital tranches were drawn.

Blackstone had sold Brimbank shopping centre in Victoria state to a consortium led by Malaysian-backed group Mulpha for about A\$150m.

MMG MINES US\$300m LOAN

Miner **MMG** has obtained a US\$300m revolving credit facility from the company's major shareholder, state-run China Minmetals, to replace an existing RCF of the same size that was due at the end of the year.

The new low-cost short-term line of credit will mature in December and is available for general corporate purposes.

The previous revolver was from ICBC.

MMG is in discussions with the Chinese bank and other lenders with a view to refinancing the shareholder loan before the end of the year.

The latest shareholder loan adds to a US\$200m credit facility – also from its major shareholder – that is due in October 2021. This facility was increased by US\$100m and the tenor extended during the three months ended June 30.

MMG is also in the final stages of negotiation for additional credit facilities.

It is in the process of establishing a Beijing office and plans to relocate some staff there from Melbourne to deepen ties with the major shareholder and China.

In 2019, MMG signed revolvers totalling US\$350m for its Las Bambas copper mine in Peru.

CHINA

CNCBI SEEKS WAIVERS

CNCB (HONG KONG) INVESTMENT is seeking consent from lenders for covenant waivers on its US\$800m debut three-year loan raised in September 2018.

The borrower has requested lenders to waive the requirements for the ratios on consolidated Ebitda-to-consolidated finance charges for June 30 and December 31.

According to the facility agreement, the financial covenants require the borrower's consolidated Ebitda-to-consolidated finance charges to be at a minimum of 1.3 times as at June 30 and 1.5 times as at December 31.

China Construction Bank (Asia) is coordinating the waiver exercise. Majority lender consent is required for the waiver with a response deadline set for July 23.

CCB (Asia), HSBC, Industrial & Commercial Bank of China (Asia) and Mizuho Bank were the mandated lead arrangers and bookrunners of the transaction, which attracted 20 banks in general syndication.

That deal offered top level all-in pricing of 180bp based on an interest margin of 165bp over Libor and a participation fee of 45bp.

China Citic Bank holds a 99.05% stake in the company, which provides money lending and investment business services.

MINSHENG BACK FOR NEW MONEY

MINSHENG FINANCIAL LEASING is preparing to launch a US\$300m new-money financing, marking its second loan of the year.

Credit Suisse is sounding banks for the deal, which is likely to have a three-year tenor.

The borrowing follows a US\$75m refinancing Minsheng Financial Leasing obtained from four lenders in January. Emirates NBD was the mandated lead arranger and bookrunner.

In October 2018, Credit Suisse, along with E. Sun Commercial Bank, led a US\$510m three-year loan for Minsheng Financial Leasing, which attracted 12 other lenders.

That facility offered top-level all-in pricing of 170bp via an interest margin of 150bp over Libor.

Minsheng Financial Leasing is the guarantor and its wholly owned unit, Minsheng Hong Kong International Leasing, is the borrower.

China Minsheng Bank is a major shareholder of Minsheng Financial Leasing, which mainly engages in aircraft leasing.

ZhengTong wins breather on loan repayment

■ CHINA Borrower had requested lenders to defer principal repayment

Lenders to *China ZhengTong Auto Services Holdings* are offering more time to the borrower to service its debt after it missed a principal repayment due last Monday on a US\$380m three-year loan it had raised in 2018.

ZhengTong said on Thursday that its lenders had indicated their unanimous agreement to allow for the July instalment of around US\$100m to be repaid on or before January 19 2021, the original final repayment date of the outstanding amount of the loan.

This would also be in accordance with the revised repayment schedule the Hong Kong-listed luxury car dealer is expected to finalise with the lender group within the next few weeks.

The original repayment schedule for the loan closed in January 2018 comprised four semi-annual unequal instalments of 10%, 20%, 25% and 45%.

The first two instalments were paid on time, while ZhengTong had last week requested lenders to defer the third instalment, stating that its planned offshore refinancing plan, which begun in May, was suspended due to the coronavirus pandemic.

Shares of ZhengTong have slumped 21% since Monday.

Morgan Stanley was the global coordinator and administrative agent of the loan, while Bank of Taiwan was the original mandated lead arranger and bookrunner for Taiwan.

The borrowing paid top-level all-in pricing of 369bp based on an interest margin of 315bp over

Libor and an average life of 2.525 years. (January 18 2018 story)

On May 12, Moody's downgraded ZhengTong's senior unsecured debt ratings to B3 from B2, with a negative outlook, and expected its sales and revenues to further decline in 2020 due to the coronavirus outbreak and weakened demand outlook. ZhengTong has already suffered an 8.3% fall in new car sales in 2019.

ZhengTong has 20 stores in Hubei province, which have been heavily affected by the pandemic. These stores accounted for 14.2% of its total stores in China at the end of June 2019.

On July 16, ZhengTong announced its plan to raise HK\$267.29m (US\$34.5m) through a private placement of 245.2m shares at a price of HK\$1.09 per share for general working capital purposes.

The borrower's most recent visit to the loan markets was in August last year for a US\$320m three-year term loan with Cinda International Asset Management acting as lead adviser.

That deal offered top-level all-in pricing of 358.56bp via a margin of 315bp over Libor and a participation fee of 110bp.

ZhengTong is an investment holding company mainly engaged in the sales of passenger motor vehicles, with a focus on premium automobile brands such as BMW, Jaguar & Land Rover, Audi, Volkswagen and Volvo.

Evelynn Lin

AGEL raised US\$862.5m in total in 2019 from two bond issues backed by solar generation assets with a combined capacity of 1.5GW.

The company had 2.545GW of operational capacity as of March-end, of which 2.148GW was solar and 397MW wind powered. In February, AGEL agreed to transfer the solar assets to a new 50-50 joint venture with Total.

According to a company presentation in May, AGEL was also in the process of securing an up to US\$1.8bn revolving credit facility for construction purposes.

The developer had 3.4GW of renewable projects under construction as of March 31, and added a further 8GW of new projects to its pipeline in June when it won the world's largest solar award from Solar Energy Corp of India.

► IRFC ROLLS FORTH US\$300m YEN LOAN

State-owned **INDIAN RAILWAY FINANCE CORP** has launched a 10-year yen-denominated loan of up to US\$300m-equivalent into general syndication.

German state-owned development bank KfW joined the transaction as mandated lead arranger and bookrunner in the senior phase. Original MLABs *State Bank of India* and *SMBC* pre-funded the deal in March, committing US\$150m apiece.

The loan pays an interest margin of 93.5bp over yen Libor and has a remaining life of 9.5 years.

Lead arrangers joining with commitments of ¥2bn (US\$19m) and above will earn an all-in of 100.3bp via a participation fee of 65bp.

Arrangers participating with ¥1bn–¥1.9bn receive an all-in of 98.2bp via a 45bp fee.

IRFC last raised a US\$300m-equivalent seven-year yen borrowing last August. That loan paid top-level all-in pricing of 93bp based on an interest margin of 90bp over yen Libor and a remaining life of 6.75 years.

A year earlier, IRFC wrapped up a ¥26.231bn 10-year Samurai loan in September 2018 that offered top-level all-in pricing of 100bp based on a margin of 80bp over yen Libor and a remaining life of 9.5 years.

INDONESIA

► ADARO UNIT SIGNS US\$350m REFI

Coal mining contractor **SAPTAINDRASEJATI**, a unit of Adaro Energy, has signed a US\$350m self-arranged two-year refinancing with a dozen banks.

ship chartering, marine engineering and medical equipment leasing.

► NINE DRAGONS PAPER WRAPS CLUB

Hong Kong-listed Nine Dragons Paper (Holdings) has signed a US\$300m three-year term loan with two banks as a club.

Bank of China (Hong Kong) and *Bank of Communications Hong Kong branch* provided the loan.

Nine Dragons Paper, Nine Dragons Paper (BVI) Group, and Zhang's Enterprises are the guarantors, while **RIVER DRAGONS PAPER INDUSTRIES** is the borrower.

In June 2019, Nine Dragons Paper obtained a HK\$3.9bn (US\$500m) three-year club loan, also from BOC and BoCom.

BOC subsequently coordinated a three-year loan of up to €140m (US\$159m) for Cheng Yang Paper Mill, the Vietnamese unit of Nine Dragons Paper, for refinancing and capital expenditure.

Nine Dragons Paper mainly engages in the production of packaging paperboard and printing and writing paper.

INDIA

► ADANI GREEN SEEKS UP TO US\$1bn

ADANI GREEN ENERGY is in talks with lenders for a loan of up to US\$1bn to finance its renewable energy projects in India.

The developer is negotiating terms to borrow between US\$700m and US\$1bn to set up new projects or refinance operational ones.

The loan could use a "restricted group" structure similar to its bonds, which ringfences a group of operating solar assets owned by AGEL's subsidiaries.

The deal size will depend on bank appetite and how many projects are included.

ANZ, Bank Mandiri, Bank of China, Bank Permata, CIMB, DBS Bank, HSBC, Mizuho Bank, OCBC, Qatar National Bank Indonesia, SMBC and United Overseas Bank are the lenders of the deal, which closed as a club.

Adaro Energy is the guarantor of the transaction.

The proceeds raised will refinance a same-sized two-year financing obtained from more than a dozen lenders in August 2018.

SIS provides services including exploration, drilling, contract mining and logistical support to Indonesia's coal mining industry.

JAPAN

▶ TAKARA LEBEN REIT TO REFI

TAKARA LEBEN REAL ESTATE INVESTMENT is set to sign a ¥15bn bullet term loan on July 28 for refinancing.

SMBC is the mandated lead arranger, while Aozora Bank, Asahi Shinkin Bank, Ashikaga Bank, Bank of Fukuoka, Iyo Bank, Minato Bank, Mizuho Bank, Nishi-Nippon City Bank, Resona Bank, Shinsei Bank, Sumitomo Mitsui Trust Bank and Tochigi Bank have joined in syndication.

The loan is split into a ¥4.95bn two-year floating-rate tranche paying an interest margin of 30bp over three-month Tibor and a ¥10.05bn five-year fixed-rate portion, the interest rate on which is yet to be determined.

Drawdown is slated for July 30.

The Tokyo-listed REIT mainly invests in office and residential properties nationwide.

JAPAN OIL GAS & METALS NATIONAL CORP has priced a ¥30.992bn (US\$289m) one-year bullet loan at a zero interest rate, its third such borrowing of the year.

The interest rate on the government-guaranteed loan was determined through a conventional auction that met with a heavy oversubscription, the state-backed company said.

Mizuho Bank was the agent.

Drawdown is slated for August 11 and proceeds will be for operating funds.

JOGMEC taps the loan market multiple times in a year and its previous visit was in April for a ¥480.33bn one-year bullet term loan with a similar structure and a zero interest rate.

PHILIPPINES

▶ PETRON SET TO BREACH COVENANT

Oil refiner **PETRON** has informed lenders that it is expected to breach the financial covenant on two loans raised in 2019 and 2017.

The covenant relates to Petron's consolidated net adjusted debt to consolidated Ebitda, which is expected to be above 6.5 times as of June 30 2020.

The lenders are expected to receive a formal waiver request at a later time.

The loans in question are a US\$800m five-year facility raised in April last year and a US\$1bn five-year financing completed in June 2017.

ANZ, Bank of China, DBS Bank, Mizuho, SMBC and Standard Chartered were the mandated lead arrangers and bookrunners of the 2019 facility, which paid top-level all-in pricing of 113bp based on an opening interest margin of 95bp over Libor.

The margin is adjusted according to a leverage ratio grid: 130bp for a net leverage ratio of 6.0–6.5 times, 110bp for a net leverage ratio of 5.5–6.0 times, and 95bp for a net leverage ratio of less than 5.5 times.

ANZ, BOC, SMBC and StanChart were the MLABs on the 2017 borrowing, which paid top-level all-in pricing of 141bp based on an opening margin of 120bp over Libor.

The margin is also adjusted to a leverage ratio grid: 140bp for a net leverage ratio of 6.0–6.5 times, 120bp for a net leverage ratio of 5.5–6.0 times, and 100bp for a net leverage ratio of less than 5.5 times.

The latest development comes as Petron is also approaching relationship banks for a three-year refinancing of around US\$350m.

The refinancing, which could be syndicated, needs to be completed this year as Petron has a US\$550m five-year term loan due in November.

The November 2015 deal paid top-level all-in pricing of 211.92bp based on a margin of 195bp over Libor and an average life of 3.25 years.

In March, Petron signed a ¥15bn (US\$139m) debut five-year Samurai loan, increasing it from an original US\$100m-equivalent target.

The loan was originally available in both US dollars and yen with margins of 110bp over Libor and 75bp over yen Libor, respectively. However, no bank joined the US dollar tranche due to rising funding costs, as a result of which the deal closed as a Samurai loan.

▶ ABS-CBN TUNES IN FOR LONG-TERM

Manila-based **ABS-CBN CORPORATION** is in discussions with its lenders for long-term debt after lawmakers in the Philippines rejected a renewal of the 25-year licence for the country's top broadcaster on July 10.

The broadcaster and its creditor banks are confident that, with the proper security in place, the company's obligations will be satisfied.

ABS-CBN is also confident that any payments or financial obligations that may arise are manageable and will not have a material adverse impact on the company for the time being.

"We are not aware of other material contracts, nor have we received any claims or demands, the payment obligations of which will be adversely affected by the resolution," the company said.

Critics saw the rejection as part of a political vendetta by president Rodrigo Duterte's allies in Congress after the media conglomerate angered him for its failure to air some of his paid 2016 election campaign commercials, Reuters reported on July 12. The network has apologised.

In order to mitigate the impact of the denial of franchise application and Covid-19, ABS-CBN has adopted and continues to implement cost control measures, including reducing general administrative expenses or overhead, and better managing its capital expenditure.

Free-to-air advertising contributed to approximately 50% of the company's unaudited consolidated revenue for the period ended September 30 2019.

ABS-CBN's last loan was a Ps5bn (US\$95m then) 10-year bilateral from Union Bank of the Philippines in May 2019. Proceeds were used for capital expenditure and general corporate purposes.

SINGAPORE

▶ AIRBUS FLIES INTO ASIA

European aerospace company Airbus is tapping a borrowing of up to US\$400m linked to promissory notes owed to it by an Asian airline in a rare structure for the region's loan markets.

Citigroup is the sole bookrunner of the borrowing, which is linked to promissory notes from Singapore Airlines Ltd that carry maturities of between six months and two years.

SQ ASSET I, a Cayman Islands-incorporated special purpose vehicle, is the borrower, which is raising the loan to buy the promissory notes from Airbus.

The purchase of the promissory notes will be at a discount of 2.4%, which effectively serves as the interest margin on the loan, which is expected to have an average life of around 1.35 years.

Citigroup has invited banks to join on three levels: MLABs joining with US\$50m or above earn upfront fees of 65bp, MLAs taking US\$35m–\$50m receive 50bp and lead arrangers with US\$20m–\$35m are offered 35bp.

Trafigura offers same pricing as 2019

■ SINGAPORE Commodities trader launches US\$1bn borrowing

Commodities trader **TRAFIGURA BEHEER** has launched a US\$1bn-equivalent financing, offering the same pricing as it did on its visit to the loan market last year.

Standard Chartered Bank and *SMBC* are the mandated lead arrangers and bookrunners of the US dollar facility, while *Agricultural Bank of China* and *China Construction Bank* are the active bookrunners of the renminbi tranche.

The new borrowing comprises a 365-day US dollar revolving credit facility (Tranche A), a one-year renminbi term loan (Tranche B) and a three-year US dollar term loan (Tranche C). All the tranches carry two 365-day extension options.

Banks are being invited to participate in either Tranche A and/or Tranche C, which pay interest margins of 65bp and 110bp over Libor, respectively.

Lenders committing an aggregate amount of US\$100m or above to both tranches will be MLAs and receive top-level all-in pricing of 95bp and 140bp, respectively, via participation fees of 30bp and 90bp.

Those joining with US\$50m–\$99m as lead arrangers earn all-ins of 92.50bp and 138.33bp

for Tranches A and C, respectively, via fees of 27.50bp and 85bp. Banks taking US\$10m–\$49m as arrangers receive all-ins of 90bp and 136.67bp for Tranches A and C, respectively, via fees of 25bp and 80bp.

Tranche B pays a margin of 100bp over CNH Hibor. MLAs taking US\$45m-equivalent or above receive top-level all-in pricing of 130bp via a participation fee of 30bp, while lead arrangers coming in for tickets of US\$30m–\$44m earn an all-in of 127bp through fees of 27bp. Arrangers joining with US\$10m–\$29m are offered an all-in of 125bp via a 25bp fee.

Singapore-based Trafigura is the borrower and is raising the funds for refinancing and general corporate purposes.

The pricing on the latest loan is similar to that on a US\$1.50bn-equivalent loan Trafigura closed last September. That borrowing comprised a US\$750m 365-day revolver (Tranche A), a US\$875m-equivalent one-year renminbi term loan (Tranche B) and a US\$300m three-year term loan (Tranche C).

DBS Bank, Industrial & Commercial Bank of China London branch, StanChart and SMBC

were the MLABs of the facility. CCB and ICBC were the active bookrunners of the renminbi tranche. CTBC Bank was the coordinator of the Taipei bank meeting.

Last month, Trafigura Trading, a subsidiary of Trafigura Group Pte Ltd, signed a US\$4bn loan to renew its North American borrowing base credit facility.

The one-year facility was reduced from US\$4.395bn because of a smaller financing need amid lower commodity prices, the company said.

MUFG, Natixis and Societe Generale were lead arrangers and joint bookrunners on the financing. MUFG also acted as administrative agent.

In June, Trafigura posted a 27% year-on-year rise in net profit to US\$542m for the six months to March 31 2020, its highest first-half net profit since 2016. This was despite US\$580m of impairments as its oil and metals trading divisions thrived in the extreme volatility caused by events in the Middle East and the coronavirus pandemic.

Chien Mi Wong, Evelyn Lin, Mirzaan Jamwal

Repayments of the loan will take place as and when Singapore Airlines honours its obligations on the promissory notes. That means the loan represents Singapore Airlines risk for lenders and a rare opportunity to book exposure to the Asian carrier.

In the past couple of years, Singapore Airlines has completed aircraft financings on a club basis.

On Thursday, the carrier announced it had raised S\$750m (US\$542m) secured against some of its Airbus and Boeing aircraft to shore up liquidity amid plummeting demand due to the coronavirus pandemic.

It followed an earlier announcement in June about a S\$900m financing secured against its aircraft. Singapore Airlines had also arranged new lines of credit and a short-term loan with several banks for further liquidity of more than S\$500m.

In March last year, the airline obtained S\$900m through a 10-year aircraft financing from six banks after completing another loan of identical size and tenor with six lenders in August 2018.

In March this year, Singapore Airlines obtained a S\$4bn bridge loan from DBS Bank to support its near-term liquidity requirements as it faced the impact of the coronavirus pandemic. It repaid S\$2bn of the bridge loan in June from the proceeds of a S\$8.8bn jumbo rights issue.

Meanwhile, Airbus has obtained a €15bn credit facility to bolster liquidity in response to Covid-19. The new financing, which is in addition to the company's existing €3bn revolving credit facility, is a conversion of an existing €5bn revolver into the new €15bn facility.

TAIWAN

■ WIN SEMICONDUCTORS EYES US\$100m

Computer chip maker Win Semiconductors is seeking a US\$100m incremental facility from new and existing lenders of a US\$100m three-year loan completed in June last year.

Far Eastern International Bank is the lead arranger and bookrunner of the incremental facility.

The latest facility offers an identical interest margin of 50bp over Libor as the previous loan. The borrower will pay any excess interest rate beyond a 40bp difference between TAIEX and Libor.

Banks are being invited to join as MLAs with commitments of US\$30m or more for an upfront fee of 20bp, as managers with US\$20m–\$29m tickets for a 16bp fee, or as participants with US\$10m–\$19m tickets for a 12bp fee.

The borrowers are **CHAINWIN BIOTECH & AGROTECH (CAYMAN ISLANDS)** and five China-based units of Win Semiconductors, while the parent is the guarantor.

Funds are for capital expenditure and working capital.

Chainwin Boitech & Agrotech will increase its investment in a farming and breeding technology company in China by US\$30m.

EUROPE/MIDDLE EAST/AFRICA

FRANCE

■ GECINA RENEWS SUSTAINABLE RCF

Real estate investment trust **GEICINA** has renewed a €240m revolving credit facility with *Societe Generale*, partially linking the margin of the facility to the company's corporate social responsibility targets.

The seven-year financing brings Gecina's social responsibility loans to around €1.2bn.

The original financing was due to mature in 2021.

Gecina agreed three sustainability-linked loans in 2019 totalling €660m.

Those loans, which are provided by BNP Paribas, Natixis and Societe Generale, comprised new facilities and the conversion of existing credit lines, including a €200m loan from Societe Generale.

Margins on those loans were linked to Gecina's performance on corporate responsibility, including global real estate sustainability benchmark ratings; carbon footprint; and an increase in high quality environmental certification in the company's building portfolio.

The company agreed its first sustainability-linked loan in April 2018, a €150m financing from ING France. The margins on that loan were indexed to the company's GRESB rating.

Gecina then agreed a €100m sustainable loan in July 2018 from Credit Agricole. The margin on that 7.5-year facility was linked to the company's performance on three CSR targets: GRESB rating; energy transition and carbon footprint; and workplace wellness and occupant productivity.

OLYMPIQUE LYONNAIS SCORES

French Ligue 1 football club **OLYMPIQUE LYONNAIS** has taken measures to strengthen its liquidity during the coronavirus crisis, agreeing a €92.6m state-backed loan on July 23 following an agreement from bank and bond lenders in June.

The crisis heavily impacted the club causing all its football matches to be halted in mid-March.

In line with other French state guaranteed financings, the loan has an initial 12-month maturity with extension options for up to a further five years.

The club has also has access to a €224.5m state-guaranteed loan from Ligue de Football Professionnel. Under that facility, clubs can receive an amount equal to the

EMEA LOANS BOOKRUNNERS – FULLY

SYNDICATED VOLUME

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 BNP Paribas	108	58,518.48	15.4
2 Credit Agricole	80	28,619.44	7.5
3 Santander	69	22,401.02	5.9
4 HSBC	63	19,881.17	5.2
5 SG	52	18,684.79	4.9
6 JP Morgan	44	18,395.84	4.8
7 Citigroup	40	17,781.95	4.7
8 UniCredit	76	17,755.99	4.7
9 Deutsche Bank	51	16,975.68	4.5
10 Sumitomo Mitsui	34	13,517.21	3.5
Total	436	381,222.06	

Proportional credit

Source: Refinitiv

SDC code: R17

media rights not paid by broadcasters Canal+ and BeIN.

OL has claimed €12.9m from the facility.

In April, OL temporarily increased its revolving credit facility to €130m from €100m.

The RCF reduces to €115m from September before reverting to €100m from February 2021.

The RCF was originally arranged in June 2017 for €73m with a five-year maturity and two one-year extension options, both of which were exercised, bringing the final maturity to June 2024.

The facility was increased to €100m in July 2019 with lenders increasing their commitments in proportion to their initial share of the loan.

The RCF was arranged by Credit Agricole Group, including LCL as global coordinator, Credit Agricole Centre Est and Credit Agricole CIB; the BPCE group, including Banque Populaire Aura, CERA and Natixis; and CIC Lyonnaise de Banque.

OL expects matches to gradually ramp up with stadium capacities limited to 5,000 people.

The club will play in the Coupe de la Ligue final against PSG on July 31 and the second leg of the Champions League round of 16 in Turin against Juventus on August 7.

ITALY

FERRAGAMO SIGNS SLL

Fashion house **SALVATORE FERRAGAMO** has signed a €250m loan with a margin linked to performance on environmental, social and governance targets.

The company said the financing mitigates risk during the coronavirus crisis, consolidating the company's liquidity position, while emphasising its commitment to sustainable investments.

The financing comprises a €125m five-year term loan and a €125m four-year revolving credit facility with a one-year extension option.

Intesa Sanpaolo is initial lender, global coordinator, bookrunner and sustainability coordinator on the financing.

LITHUANIA

VMG NETS €86m LOAN

Wood product company **VMG GROUP** has agreed an €86m syndicated loan to finance the construction of a particle board plant.

The European Bank for Reconstruction and Development is providing €20m, Swedbank is providing €36m and Citadele Bank is providing €30m.

The particle board plant will be built in the Naujoji Akmenė Free Economic Zone.

Law firm Cobalt advised the lenders.

VMG Group comprises 16 companies operating in Lithuania and other countries, employing more than 3,900 people. Its products are exported to 11 countries in the EU, US, Middle East, India, China and Australia. Swedish retailer IKEA is a major partner of the group.

NORWAY

PGS IN LOAN TALKS

Geophysical company **PETROLEUM GEO-SERVICES** is in talks with its banks over an extension to a scheduled US\$135m step-down due in September on its US\$350m revolving credit facility.

The company is also looking to amend covenants on the financing to further preserve liquidity and is in talks with other lenders to get repayment holidays.

PGS fully drew the RCF in April as the coronavirus pandemic, combined with disruption in the oil market, impacted the offshore services industry.

PGS completed a refinancing in February, agreeing a US\$523m term loan B maturing in March 2024, a US\$4m term loan B maturing in March 2021, the US\$135m RCF maturing in September 2020 and a US\$215m RCF maturing in September 2023.

SPAIN

NATURGY ADDS LIQUIDITY WITH SLL

Utility **NATURGY ENERGY GROUP** has agreed a €1bn three-year sustainable loan to shore up its liquidity during the coronavirus crisis.

Margins on the loan, which matures in June 2023, are tied to environmental targets including the reduction of greenhouse gas emissions.

CaixaBank coordinated the financing as bookrunner, mandated lead arranger and sustainability agent, while BBVA and Santander also participated as bookrunners and mandated lead arrangers.

In the first half of 2020, Naturgy increased its liquidity by around €2bn, including cash and cash equivalents and undrawn credit lines. The company has around €10bn of available liquidity.

The financing will also support the company's environmental, social and governance commitments.

Naturgy recently announced a new global environmental policy plan, setting targets to reduce its greenhouse gas emissions, reduce

CO2 intensity in power generation and increase generation capacity from renewable sources.

The company recently shut down its coal power plants and plans to replace them with renewable schemes, which will contribute to the targets.

In late 2019, its renewables arm Naturgy Renovables agreed a €600m green loan via coordinating banks BBVA and Caixabank.

Naturgy, previously Gas Natural Fenosa, was formed in 2008 from Gas Natural's acquisition of Union Fenosa. The company's core business operates in the regulated and liberated gas and electricity markets.

ALMIRALL SIGNS REFINANCING

Pharmaceuticals company **ALMIRALL** has signed a €275m syndicated loan to refinance a facility that matures in February.

The new financing, which is for general corporate purposes, has a three-year maturity with a one-year extension option.

BBVA coordinated the financing while Santander, CaixaBank, BNP Paribas and Banca March also participated.

SWITZERLAND

ABB REPAYS COVID LOAN

Engineering firm **ABB** has fully repaid a €2bn short-term revolving credit facility that was arranged in March to strengthen its liquidity in the face of the coronavirus crisis.

A growing number of European companies have started to repay additional liquidity facilities that were put in place as a precaution during the crisis.

The short-term RCF, arranged by BNP Paribas and Citigroup, had an initial six-month maturity with the option to extend to December.

The facility paid an initial margin of 25bp over Euribor until July 14, rising to 50bp until the initial maturity date. If the financing had been extended, it would pay a 75bp margin.

The RCF was fully drawn at the end of March.

Under the terms of the RCF, ABB repaid and terminated the facility after the completion of the sale of 80.1% of its Power grids business to Hitachi on July 1 for US\$7.6bn-\$7.8bn.

The company is looking at further deleveraging, including a review of benefit pension structures and the repayment of a €1bn bond that matures in October.

ABB aims to maintain its Single A credit rating.

ABB retains access to its US\$2bn multicurrency RCF that was agreed in December.

That financing has an initial five-year maturity plus two one-year extension options and pays a margin of 17.5bp over Libor/Euribor.

SR TECHNICS GETS STATE BACKING

Aircraft technician **SR TECHNICS** has agreed a SFr120m (US\$129m) additional credit line with a 60% guarantee from the Swiss Confederation to improve its liquidity after the company was affected by the coronavirus crisis.

The financing is being provided by SR Technics' bank group, which includes *Credit Suisse*, *Basellandschaftliche Kantonalbank*, *Basler Kantonalbank* and *Ratiffeisen Schweiz Genossenschaft*.

The company started the first quarter of 2020 strongly with results ahead of expectations, but growth collapsed in April after a significant decline in customer demand as a result of the pandemic.

To secure liquidity to absorb the impact of the crisis, SR Technics implemented cash preservation measures and short-time work.

SR Technics is headquartered at Zurich Airport.

UK

FORD SEALS ECA-BACKED LOAN

FORD MOTOR's UK subsidiary has secured a £625m five-year loan with a £500m guarantee from the country's export credit agency UK Export Finance.

The financing comes after Rolls-Royce's £2bn five-year term loan that was agreed in July, which also carried a guarantee from UKEF, as exporters look to diversify their sources of funding during the coronavirus crisis.

UKEF will provide the guarantee under its new Export Development Guarantee to support high value commercial lending to UK exporters.

Citigroup coordinated the financing along with mandated lead arrangers *NatWest*, *Lloyds* and *SMBC*.

Ford exports around 85% of engines and 100% of transmissions built in the UK to more than 15 countries in six continents, and generating overseas sales of around £2.5bn annually.

Under the EDG, UKEF will guarantee of up to 80% to support bank loans for general working capital or capital expenditure and investments to UK companies that meet UKEF's definition of an exporter, together with other eligibility criteria.

The EDG has a minimum transaction size of £25m and a maximum repayment period of five years.

L&G FUND COMPLETES REFI

LEGAL & GENERAL has completed a £450m refinancing for its Industrial Property Investment Fund after the fund converted to an evergreen, open-ended vehicle from a closed-end fixed-life fund.

The financing comprises a £200m long-term fixed-rate term loan and a £250m revolving credit facility.

The fixed-rate loan will allow investors to benefit from the low interest rate environment while the RCF will allow the fund to respond to market opportunities as and when they arise.

The financing has the potential to increase to £550m, subject to lender support.

"The securing of a new debt facility for the fund will help boost our investment capacity and take advantage of new market opportunities, including a rise in demand for e-commerce and last-mile warehouse facilities," said Jonathan Holland, senior fund Manager of IPIF.

Wells Fargo Bank is lead agent on the financing with *RBS International* and *Lloyds Bank* also participating.

IPIF is valued at more than £2.3bn and specialises in multi-let industrial and trade assets largely in south-east England. During the coronavirus lockdown, the fund remained open and received no redemption requests.

CRODA TAPS FOR AVANTI BUY

Chemicals company **CRODA INTERNATIONAL** is backing its acquisition of US-based drug delivery technology company Avanti Polar Lipids with a US\$200m unsecured term loan.

The three-year loan is being provided by some of the company's core relationship banks.

Croda is paying an initial US\$185m for Avanti with an additional earnout of up to US\$75m.

Avanti will become part of Croda's life sciences sector, sitting within the healthcare business. The acquisition is expected to close during the third quarter.

In 2019, Croda refinanced its revolving credit facility via a group of nine banks, aligning the financing to annual targets on the reduction of the use of carbon.

Savings made on that financing will be used to invest in sustainability projects.

HIPGNOSIS PUMPS UP RCF

Music investment company **HIPGNOSIS SONGS FUND** has increased its revolving credit facility to US\$400m from £150m as part of its financing strategy.

Drawings under the facility will now be in US dollars to provide a partial hedge against foreign exchange movements as the majority of Hipgnosis' catalogues are acquired in US dollars while the majority of its income is also received in dollars.

The increased RCF has financial covenants comprising maximum loan to value of 40%; cash and facility headroom greater than one year's estimated total costs; and maximum total debt as a multiple of amount of royalties received by publishers of 4.5 times.

As part of the company's investment policy, total borrowings will not exceed 30% of net asset value.

Hipgnosis said it would substantially invest the net proceeds of its recent £236.4m equity fund raise before drawing further leverage.

The financing, which is led by *JP Morgan* and is for working capital, was originally arranged in August 2019 for £100m and increased to £150m in April. The maturity of the facility was also extended to April 2025 from August 2020.

The loan pays 375bp over Libor.

Guernsey-registered Hipgnosis offers investors pure-play exposure to songs and associated musical intellectual property rights. The company's investment adviser is The Family (Music), which counts producer Nile Rodgers as a member of its advisory board.

NORTH AMERICA

CANADA

CARGOJET LANDS A&E

Overnight air cargo company **CARGOJET** has amended and extended its syndicated revolving credit facility.

AMERICAS LOANS BOOKRUNNERS – FULLY

SYNDICATED VOLUME

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Bank of America	576	148,084.86	13.1
2 JP Morgan	488	137,075.18	12.1
3 Citigroup	286	94,198.46	8.3
4 Wells Fargo	358	83,648.28	7.4
5 Barclays	175	37,572.79	3.3
6 Goldman Sachs	163	37,203.98	3.3
7 RBC	160	34,153.20	3.0
8 Morgan Stanley	92	34,107.33	3.0
9 Credit Suisse	109	31,572.51	2.8
10 US Bancorp	193	28,426.83	2.5
Total	1,891	1,133,716.88	

Proportional credit
Source: Refinitiv

SDC code: R7

The financing has been increased to C\$600m (US\$443m) from C\$510m while the maturity has been extended to July 16 2025 from October 28 2024.

Royal Bank of Canada, CIBC and Bank of Nova Scotia co-led the financings. Other lenders include *National Bank, Bank of Montreal, Laurentian Bank of Canada* and *ATB Financial*.

LEVERAGED LOANS

UNITED STATES

GRAHAM PACKAGING SEEKS US\$1.41bn

Container manufacturer **GRAHAM PACKAGING** has launched a US\$1.41bn loan.

The seven-year loan is being offered at 400bp over Libor with a 0.75% floor, a 98-98.5 OID and 101 soft call protection for six months.

The company is also raising a US\$100m revolving credit facility.

Credit Suisse and *HSBC* are arranging the transaction.

Graham Packaging is a business unit of packaging manufacturer Reynolds Group. Proceeds from the term loan will refinance debt held by Reynolds.

On July 9, New Zealand-headquartered Reynolds said it intended to raise standalone financing for Graham Packaging. It said the financing will enable Reynolds and Graham Packaging to better operate as standalone businesses.

It will also allow for the legal separation of the two businesses in the future if Graham ceases to be a subsidiary of Reynolds.

Packaging machine manufacturer **PROMACH** closed a US\$325m debt financing on Friday, comprising a US\$162.5m first-lien term loan B and a US\$162.5m delayed-draw term loan.

The debt was set to price at 350bp over Libor with a 1% floor, a 95 OID and 101 soft call protection for 12 months.

Initial guidance was 350bp with a 1% floor and a 92-93 OID.

ProMach's loan will mature in March 2025.

Corporate ratings are B2/B- and the first-lien loan is rated B3/B-.

On the DDTL, ticking fees worth 50% of the margin will be in place until August 20 before increasing to 100% of the margin thereafter.

Morgan Stanley and *Goldman Sachs* arranged the deal.

Proceeds will fund acquisitions under a letter of intent and go toward general corporate purposes.

On July 9, ProMach said it acquired Modern Packaging, which manufactures machines for filling and sealing food and dairy products.

In March the company said it acquired Pharmaworks, which provides packaging for pharmaceutical and consumer goods.

EPICOR SEALS US\$2.75bn DEAL

EPICOR SOFTWARE CORP finalised the terms of a US\$2.75bn debt financing that will fund a portable dividend recapitalisation.

The transaction still comprises a US\$1.925bn first-lien loan, but the second-lien portion has been split into a US\$425m loan and a US\$400m second-lien floating-rate note tranche that has been privately placed.

Initially, the second-lien facility comprised a US\$825m loan.

The first-lien seven-year loan was priced at 425bp over Libor with a 1% floor, a 98 OID versus guidance of 97.5-98 and 101 soft call protection for 12 months.

The US\$425m second-lien eight-year loan was priced at 775bp over Libor versus guidance of 775bp-800bp, with a 1% floor and 98.5 OID, which was tightened from 98.

The second-lien loan is non-callable for the first year, and then callable at 102 and 101 thereafter.

Call protection will be reset if the company is sold to a new owner.

KKR Capital Markets was left-lead on the deal. *Barclays, Nomura, Jefferies, Macquarie* and *Stone Point Capital* were also arrangers.

If KKR-backed Epicor is sold to a new financial sponsor, the buyer must have at least US\$1bn in assets under management.

In order to change hands, Epicor must cap the amount of add-backs to no more than 25% of consolidated Ebitda and total leverage must not exceed 7.5 times.

Under the terms of the new credit agreement, Epicor must now conduct quarterly lender calls.

Proceeds from the new loans, along with cash on the balance sheet, will fund a US\$557.5m dividend, repay a US\$1.7bn first-lien loan and repay US\$510m in existing second-lien notes.

In June 2018, the company raised a US\$75m fungible add-on to its first-lien loan at 325bp over Libor with a 0% floor.

Epicor wrapped up a US\$1.7bn repricing of its first-lien loan at 325bp over Libor in January 2018.

Canadian jet and train maker **BOMBARDIER** has obtained a US\$1bn loan commitment from HPS Investment Partners.

The three-year first-lien term loan does not include a financial covenant. It will be secured against the company's aviation inventory and accounts receivable.

Traders favour high-quality loans in bid to withstand volatility

■ US SECONDARY Loan prices could start to drop in the autumn

Traders in the US leveraged loan market are exercising caution in their activity across the secondary market. They are favouring bids for higher-rated loans more likely to perform as the economy continues to be pressured amid the coronavirus pandemic.

Some investment-grade and highly rated non-investment-grade institutional loans, including facilities for mobile telecommunications company **T-MOBILE** and a credit for **DELL INTERNATIONAL LLC**, a subsidiary of computer maker **DELL TECHNOLOGIES**, are among the most actively bid tranches in the secondary market.

T-Mobile's US\$4bn loan, rated Baa3/BBB-/BBB- and due in April 2027, was quoted at 99.5–100.25 cents on the dollar on Tuesday. Dell International LLC's loan, rated Baa3/BBB-/BBB- and maturing in 2025, was quoted at 98–99 cents.

Investors holding loans such as T-Mobile or Dell benefit from these companies' higher credit ratings and liquidity profiles, and lower leverage ratios. Dell International, for example, had approximately US\$6.4bn in cash at the end of its 2020 financial year on March 31, according to Moody's.

Due to the pandemic, companies have encouraged their employees to work from home for the foreseeable future. Industries

linked to technological growth, therefore, are in a position to gain from more consumers and workers stationed in their homes that require the latest in hardware and communications technology.

Conversely, loans for companies in industries severely hit by the health crisis are trading deeper in distressed territory.

AMERICAN AIRLINES' term loan maturing in 2025 was quoted at 58–61.5 cents on Tuesday down from 63.5–66.5 cents one week earlier.

Despite the positive sentiment in the credit markets, concerns prevail that corporate earnings for the third quarter will disappoint as the pandemic keeps businesses shut. Some states, including Florida and California, have rolled back plans to reopen parts of their economies after a spike in cases of Covid-19 this month.

US deaths from the respiratory illness rose for a second week in a row to more than 5,200 people for the week ending July 19, up 5% from the previous seven-day period.

"Events that are far bigger than us are going to drive the markets," said Art Penn, managing partner of PennantPark Investment Advisers, which focuses on middle market credit investments. "The virus, prospects for a vaccine and actions from the Fed will be key to determine how the market reacts."

INCOMING OPPORTUNITIES

The LPC 100, a cohort of the 100 most liquid US leveraged loans, closed at 94.34 cents on the dollar on Monday. It hovered in the mid-90 cent range throughout July.

However, some expect loan prices to drop in the autumn months, starting in October, if states do not advance plans to reopen their economies and enable many people to get back to work.

"Things can only stay calm for so long. Markets are going to catch up with what's happening with respect to unemployment figures," said Jennifer Pastarnack, a partner who leads the global debt and claims trading practice at law firm Sullivan & Worcester.

"The lack of consumer spending, if that continues into the fall, can lead to liquidity issues for companies."

Consequently, a dip in loan prices may present an opportunity for investors to purchase credits in the secondary market at a steep discount.

"There is a stressed and distressed investment community waiting in the wings and they have a lot of dry powder available to fill the gap if and when (a drop in loan prices) happens," said Penn.

Aaron Weinman

Proceeds will be used to provide additional liquidity as the borrower weathers the coronavirus pandemic.

The facility will be in place in the third quarter and has a US\$750m minimum utilisation.

Bombardier must use a portion of the proceeds from the US\$7bn sale of its railway operations business, Bombardier Transportation, to repay 50% of the outstanding loan facility. Bombardier is selling the business to French high-speed train maker Alstom.

Final pricing on the floating-rate loan has yet to be finalised.

■ RYAN WRAPS US\$1.65bn LOAN

Insurance brokerage **RYAN SPECIALTY GROUP** has cut the margin on a US\$1.65bn loan by 50bp and tightened the OID.

The seven-year loan priced at 325bp over Libor and a 98.5 OID, versus guidance of 97–98 cents.

In exchange for the tightened margin, Ryan has removed a 25bp step-down in pricing that was proposed at launch if the company lowered its net debt-to-Ebitda ratio to 4.0 times or less.

A 0.75% Libor floor and 101 soft call protection for six months are unchanged from launch.

The company is also raising a US\$300m five-year revolving credit facility.

JP Morgan, BMO Capital Markets, Barclays and Wells Fargo arranged the deal.

Proceeds will support the acquisition of peer All Risks, refinance debt and pay fees and expenses related to the transaction.

Ryan Specialty Group and its first-lien loan are rated B1/B.

Upon closing the acquisition and term loan financing, pro forma debt to Ebitda will be approximately 6.5 times, according to Moody's.

Leverage is expected to fall to below 6.0 times over the next few quarters due to Ebitda growth and debt reduction, Moody's said.

Aftermarket automotive platform **FIRST BRANDS** has increased the size of its add-on loan to US\$810m from US\$710m.

The additional US\$100m will be used to reduce drawings on the company's asset-based loan facility.

There has also been pro-lender amendments to the company's documentation for the existing first-lien facility after the firm proposed a number of borrower-friendly changes, including modifications of the total net leverage covenant and Ebitda definition, as well as a number of others.

First Brands will pay a 1% amendment fee for the changes.

Once the add-on is syndicated First Brands first-lien facility will total US\$1.579bn.

A proposed interest rate of 750bp over Libor, a 1% floor and a 94 OID remain unchanged.

The firm will reset hard call protection on the existing debt facilities. Call protection for the first year will be 102. Call protection in the second year will be 101.

Jefferies arranged the loan.

AGROFRESH FINALISES LOAN

Fresh produce company **AGROFRESH** has finalised the terms of a US\$275m loan.

The deal priced at 625bp over Libor and a 96 OID, versus guidance of 600bp-625bp and a 96-97 OID.

A 1% Libor floor and 101 hard call protection for 12 months remain unchanged.

Proceeds will amend an existing loan that matures in July 2021 and extend the maturity to December 2024.

BMO Capital Markets and Deutsche Bank arranged the transaction.

Corporate ratings are B3/B- and the first-lien loan is rated B3/B.

AgroFresh is also expected to receive a US\$150m investment from private equity firm Paine Schwartz Partners, through newly issued convertible preferred stock.

Moody's upgraded AgroFresh and its first-lien loan to B3 from Caa1 earlier this month.

The upgrade reflected the issuance of the convertible stock and the completion of the term loan, which will reduce AgroFresh's balance sheet debt, improve its credit metrics and liquidity, and eliminate near-term refinancing risk, Moody's said.

Pro forma, for the new debt and equity issuance, the company's debt-to-Ebitda ratio will be approximately 4.4 times on an adjusted basis.

In July 2015, AgroFresh raised a US\$425m six-year term loan at 475bp over Libor with a 1% floor.

EUROPE/MIDDLE EAST/AFRICA

REFRESCO SEEKS €400m TLB

Dutch bottling company **REFRESCO** has launched a €400m loan to finance prospective acquisitions in the US and Europe.

US LEVERAGED LOANS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Bank of America	328	54,343.54	11.8
2 JP Morgan	240	39,625.92	8.6
3 Wells Fargo	190	36,598.16	8.0
4 Citigroup	130	28,200.84	6.1
5 Credit Suisse	93	25,331.72	5.5
6 Goldman Sachs	127	24,605.53	5.4
7 Barclays	119	22,632.26	4.9
8 Morgan Stanley	70	18,062.47	3.9
9 RBC	75	15,146.68	3.3
10 Deutsche Bank	85	14,257.90	3.1
Total	918	459,170.80	

Excluding Project Finance.

Source: Refinitiv

SDC code: P2

BNP Paribas and Credit Suisse are leading the covenant-lite Term Loan B, alongside Deutsche Bank and Rabobank.

The 4.7-year term loan matures in March 2025, in line with Refresco's existing term loan, and is guided at 400bp over Euribor with a 0% floor, at a 98.0-98.5 OID.

The loan is offered with 101 soft call for six months.

Issue ratings are expected to be B1/B+, with a recovery rating of 3. Expected corporate ratings are B2/B+.

Refresco raised a US\$150m add-on TLB for acquisition purposes in November 2019, paying 325bp over Libor, with a 0% floor. In July 2019, Refresco raised a €150m add-on to repay drawings under a revolving credit facility, paying 325bp over Euribor.

Refresco secured €2bn-equivalent of loans in 2017, to back PAI Partners' buyout of the firm.

The seven-year covenant-lite €1.217bn and US\$620m TLBs were both priced at a margin of 325bp over Libor/Euribor, with a 99.5 OID. A £200m seven-year TLB was priced at 400bp over Libor.

The company is Europe's largest manufacturer of soft drinks and fruit juices.

HELPSYSTEMS GETS US\$145m LOAN

Jefferies has lined up a US\$145m-equivalent euro term loan to back US software company **HELPSYSTEMS'** acquisition of GlobalSCAPE.

The first-lien loan is expected to be placed ahead of the summer break.

There is also a US\$60m pre-placed second-lien add-on term loan that will be used to support the transaction.

HelpSystems has agreed to buy all the outstanding shares of GlobalSCAPE, a San Antonio-based cloud computing company. The transaction is valued at approximately US\$217m, including debt to be refinanced.

EUROPEAN LEVERAGED LOANS

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 HSBC	19	5,161.57	7.3
2 BNP Paribas	28	5,027.53	7.1
3 JP Morgan	25	4,590.85	6.5
4 Goldman Sachs	20	4,570.18	6.4
5 Credit Agricole	22	4,493.48	6.3
6 Barclays	19	4,177.21	5.9
7 Deutsche Bank	22	3,756.82	5.3
8 Citigroup	11	3,446.14	4.9
9 Natixis	8	3,018.13	4.3
10 UniCredit	14	2,950.48	4.2
Total	111	71,003.45	

Excluding project finance. Western Europe only included.

Source: Refinitiv

SDC code: P10

HelpSystems last tapped the loan market in June with a US\$130m add-on, fungible with its US\$785m first-lien term loan due November 2026. The first-lien loan priced at 475bp over Libor, with a 1% Libor floor, at 98.56.

Proceeds from that add-on were used to finance two acquisitions, to add cash to the balance sheet and to pay related transaction and advisory fees and expenses.

HelpSystems, backed by TA Associates, HGGC and Charlesbank Capital Partners, provides system and network management, business intelligence and security and compliance software.

INVESTINDUSTRIAL NETS ESG DEAL

Private equity group **INVESTINDUSTRIAL** has signed a €600m subscription credit facility with a margin linked to environmental, social and governance targets.

Interest on the facility, which is for the Investindustrial VII fund, is linked to ESG factors in areas including environment, gender diversity and governance. The margin reduces if the targets are met.

Any savings made will be ringfenced for investments in carbon reduction ESG initiatives, including the continued development of Investindustrial's portfolio of nature-based carbon reduction projects, creating a positive ESG feedback loop on the financing.

Investec Bank is the arranger and sustainability coordinator on the financing, which is also supported by State Street and Intesa Sanpaolo.

Investindustrial has been carbon neutral since 2008. The company said in February, that it is working towards becoming carbon positive across all its active funds by the end of 2020. By 2027, it plans to have 100% of electricity consumption across its portfolio sourced from renewable energy.

EMEA SPONSORED LOAN BOOKRUNNERS

BY VOLUME: 1/1/2020 TO DATE

Europe, Middle East, Africa			
Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 HSBC	10	2,557.16	6.8
2 BNP Paribas	13	2,297.64	6.1
3 JP Morgan	13	2,226.55	5.9
4 Morgan Stanley	9	2,073.63	5.5
5 Deutsche Bank	13	2,041.11	5.4
6 SG	7	2,007.09	5.3
7 Bank of America	9	1,962.05	5.2
8 Credit Agricole	12	1,866.30	5.0
9 UniCredit	8	1,758.86	4.7
10 Barclays	11	1,722.40	4.6
Total	60	37,675.50	

Excluding project finance.

Source: Refinitiv

SDC code: P13

The move comes after Sweden's EQT put a €2.3bn ESG-linked fund financing in place in June. That deal linked pricing to portfolio companies' ability to hit targets linked to gender equality, renewable energy transition and governance.

And French private equity firm Eurazeo signed a €1.5bn fund financing in January, also linking the margin to ESG targets.

▶ C'PRO SECURES €442.5m

French printing firm **C'PRO** has secured a €442.5m financing to back its acquisition of peer Koden from Naxicap Partners.

The covenanted financing comprises a €287.5m term loan A, a €100m term loan B and a €55m revolving credit facility.

BNP Paribas, Natixis and Societe Generale were underwriters and bookrunners, and mandated lead arrangers with Banque Populaire Auvergne Rhone Alpes, Credit Industriel et Commercial and HSBC France.

Natixis Partners was financial and debt adviser to C'PRO.

Last month, C'PRO agreed to acquire Koden, its main competitor in the French print and electronic document management markets for small and medium-sized companies.

Through that transaction, the combined group will reach around 12% market share with aggregated turnover of €565m in 2019.

C'PRO has been on buying spree in recent years, conducting more than 100 acquisitions since its creation in 1991, of which 50 came between 2016 and 2019.

C'PRO is owned by its management team, led by founder and chairman Pieric Brenier and CEO Gilles Perrot.

ASIA-PACIFIC

▶ PIONEER CREDIT EXTENDS STANDSTILL

PIONEER CREDIT has extended the standstill agreement on a loan provided by an entity of private equity giant Carlyle Group to August 14 from July 17 as the company finalises the proposed refinancing of its senior debt facilities.

The extension from *Project Robin*, an entity of Carlyle, has taken effect and was subject to the satisfaction of certain conditions precedent.

Under the standstill agreement signed in May, Project Robin will not take any action on any expected or subsisting default under the loan.

While the proposed refinancing of Pioneer's senior debt facilities has been progressing, the process to-date has taken longer than expected, the company said.

The extended agreement now provides, among other things, the ability for Pioneer to recommence its debt purchasing programme within agreed parameters.

Pioneer requests the current suspension of its shares remain in place until it announces the completion of its refinancing exercise or August 17, whichever is the earliest.

In April, Pioneer terminated its proposed leveraged buyout from Carlyle and has started discussions with other parties for alternative proposals as well as lenders to refinance existing debt.

Pioneer and Robin BidCo had signed the deal under which the latter was to acquire 100% of Pioneer's fully diluted shares outstanding for A\$1.82 per share.

In December, Carlyle was also in discussions to replace Pioneer's senior debt facilities as part of the proposed LBO, which was valued at A\$288m (US\$201m).

In late June, the company announced a juicy 200bp increase to the pricing of a A\$40m subordinated debt as part of an amendment and extension exercise.

The proposed A&E of the medium-term notes includes increasing the margin to 7.25% per annum from 5.25% and extending the maturity by 12 months to March 22 2023.

The company is also seeking to amend and increase the total net debt-to-loan book value ratio covenant to 82.5% from 70% until March 31 2022 before reducing it to 77.5% thereafter, and to revise optional redemption dates that Pioneer can exercise at face value at the end of each quarter.

Noteholders will receive a consent fee of 50bp for the outstanding principal amount of each note issue if they vote in favour of the required circulating resolution, subject to the passing of the resolution and successful closing of the senior debt replacement funding package.

▶ BELLE EYES HK\$20bn REFI

Shoe retailer **BELLE INTERNATIONAL HOLDINGS** is in talks with banks for a refinancing of HK\$20bn (US\$2.58bn).

The deal is likely to be on a club basis, with some Chinese banks expected to join with big tickets.

In September 2018, Belle International obtained a HK\$29bn five-year loan via a dividend recapitalisation, and amendment and extension exercise.

Bank of America and HSBC were the original mandated lead arrangers, bookrunners and equal underwriters of the loan, which attracted 15 other banks.

That deal offered a top-level all-in of 287.85bp based on an opening margin at 275bp over Libor and a remaining average life of 4.28 years.

Muse Holdings B, a Cayman Islands incorporated special purpose vehicle, is the borrower of that senior secured loan.

In July 2017, Belle International obtained a HK\$28bn term loan backing its take-private deal. Bank of America was the original MLAB of that deal, which offered top-level all-in pricing of 326bp based on an opening interest margin of 315bp over Hibor, a 50bp upfront fee and an average life of 4.4 years in general syndication.

Belle International was taken private by Hillhouse Capital Group and CDH Investments in July 2017 in a deal valued at US\$6.8bn, the largest buyout in Hong Kong that year.

Belle International in October last year listed its sportswear business – Topsports International Holdings.

RESTRUCTURING

UNITED STATES

▶ WORLDSTRIDES NEARS DIP FINANCING

Student travel company **WORLDSTRIDES** is seeking court approval for US\$368m in debtor-in-possession financing after filing for Chapter 11 bankruptcy protection on Monday, in a bid to restructure its debt as its business was hit by the coronavirus pandemic.

The DIP comprises US\$200m in new-money DIP loans, US\$150m in rolled-up pre-petition debt, US\$2m in letters of credit, and US\$16m in financing fees, structured as upfront payment-in-kind-premiums.

Of the US\$200m in new money DIP loans, US\$100m will come from a group of pre-petition lenders and US\$100m will come from private equity sponsors Eurazeo North America and Primavera Capital.

The new money DIP is priced at 1,200bp over Libor with a 1.25% floor. For the roll-up DIP loan, the company must pay 150bp of the interest in cash, while 1,050bp of the interest is payment-in-kind. The roll-up DIP loan has a 1.25% floor.

The company's US\$768m pre-petition debt includes US\$60m under a revolving credit facility, US\$583m under a term loan and US\$126m in seller notes.

WorldStrides, which organises educational tours for students, has been hit hard by the government-mandated travel ban that was introduced in response to the global spread of the virus.

The ban also came into effect around the time the company entered its peak tour operating season, which impacted its profit margins.

Although the company did not default on its pre-petition debt, it decided to start restructuring discussions on May 19 with its lenders and sponsors, which culminated in a July 8 restructuring support agreement.

WorldStrides said it expects to emerge from bankruptcy protection by October. The US\$100m in DIP financing provided by the lenders that signed the RSA and the US\$2m in letters of credit will be converted into a US\$110m priority exit facility.

The US\$150m roll-up DIP loan will be converted into a US\$153m second-out term loan take-back facility and the US\$100m in DIP financing provided by the company's equity sponsors will be converted into common stock.

BRIGGS & STRATTON SEEKS APPROVAL

Engine manufacturer **BRIGGS & STRATTON** is seeking court approval for US\$677.5m in debtor-in-possession financing after filing for Chapter 11 bankruptcy protection on Monday.

The DIP includes a US\$412.5m first-out, asset-based lending facility and a US\$265m senior secured last-out term loan.

When the DIP last-out term loan closes, the ABL will be reduced to US\$350m.

The ABL is structured to include a US\$383.7m North American revolving commitment that will be reduced to US\$321.2m when the DIP last-out term loan closes. The ABL also has a US\$28.8m Swiss revolving facility for the company's overseas affiliates, which are not part of the US bankruptcy proceedings.

The ABL is priced at 350bp over Libor with a 1% floor and the term loan is priced at 700bp over Libor with a 1% floor.

JP Morgan, Bank of America, Bank of Montreal and Wells Fargo, which are the company's pre-petition ABL lenders, are lead arrangers of the DIP ABL facility.

As of March 29, the company had US\$402.2m outstanding under a US\$500m pre-petition ABL facility and US\$195.4m in unsecured notes.

KPS Capital Partners, which signed an agreement to purchase the company's assets, is providing financing for the term loan. A court-supervised sales process will be held.

Briggs & Stratton, which makes small engines and parts for outdoor power equipment, was hurt financially when Sears, one of its largest customers, filed for bankruptcy in 2018.

BRUIN LINES UP DIP DEAL

Oil exploration and production company **BRUIN E&P PARTNERS** is seeking court approval for US\$230m in debtor-in-possession

financing after it filed for Chapter 11 bankruptcy protection on July 17 in an attempt to restructure more than US\$1bn in debts.

The DIP includes a US\$115m revolving credit facility and a US\$115m reserve-based term loan of rolled-up pre-petition debt. The DIP revolver comes with a sub-facility allowing for up to US\$11m in letters of credit.

BMO is the lead arranger.

The company's US\$1.077bn pre-petition debt includes US\$510m under a reserve-based loan facility, and US\$567m in unsecured notes, according to a first day declaration from CEO Matthew Steele.

Bruin is backed by private equity firm *Arclight Capital*. Like other oil and gas companies, it was struggling with volatility in commodity prices even before this year's oil price war between Saudi Arabia and Russia. The drop in consumer demand as the coronavirus pandemic gripped also meant that deleveraging options became more limited, Steele said.

On April 6, RBL lenders reduced the company's borrowing base to US\$400m from US\$710m, further restricting the company's liquidity.

Following the borrowing base reduction, Bruin signed a forbearance agreement to avoid a default with respect to installation payments associated with the RBL. Subsequently, the company agreed to a debt-for-equity swap with its lenders through a July 16 restructuring support agreement.

As part of the agreement, Bruin will receive exit financing in the form of a 3.5-year senior secured revolving credit facility of up to US\$500m that will be used to pay down the DIP.

BMO is also the lead arranger for the exit financing.

GLOBAL EAGLE SEEKS US\$80m DIP

Inflight entertainment provider **GLOBAL EAGLE ENTERTAINMENT** is seeking court approval for a US\$80m debtor-in-possession financing after filing for Chapter 11 bankruptcy protection on Wednesday, with a plan for its first-lien lenders to take over the company.

The US\$80m DIP is structured as a new money delayed-draw term loan, and the company will receive US\$30m of the DIP upon interim court approval.

The DIP loan is priced at 1,000bp over Libor with a 1.25% floor.

Citigroup is lead arranger and administrative agent.

When the coronavirus became a global pandemic earlier this year, Global Eagle's main customers - airlines and cruise ships - cut back or cancelled their service routes, leading to a significant decline in revenue.

The company's pre-petition debt includes US\$503.3m under a term loan, US\$81.1m drawn on a revolving credit facility, US\$188.7m in second-lien notes and US\$82.5m in convertible notes.

After a three-month discussion with lenders, Global Eagle signed a restructuring support agreement with its first-lien lenders to buy the company for US\$675m in a court-supervised sale.

The lender group includes *Apollo Global Management, Eaton Vance Management, Arbour Lane Capital Management, Sound Point Capital Management, Mudrick Capital Management and BlackRock*.

The lender group will issue a four-year US\$125m new money credit facility and a five-year US\$275m takeback financing facility when the company emerges from bankruptcy. The exit financing may also include a letter of credit facility.

The four-year credit facility will be priced at 1,000bp over Libor, with a 1.25% floor. The takeback financing facility, which is junior to the four-year facility, will be priced at 750bp over Libor, with a 1.25% floor.

For the first two years after emergence from bankruptcy, if the company's liquidity is less than US\$40m on a pro forma basis, up to 500bp of the takeback facility's interest will be structured as payment-in-kind.

EUROPE/MIDDLE EAST/AFRICA

NMC SEEKS UP TO US\$250m DIP

Hospital operator **NMC HEALTH** is seeking up to US\$250m in debtor-in-possession financing while it prepares for insolvency proceedings in the UAE and has picked *Perella Weinberg Partners* to advise it on the process.

The company, run by administrators *Alvarez & Marsal*, has also tasked *Perella* to advise it on the sale of UK-based *Aspen Healthcare* that it acquired in 2018.

NMC Health Plc, the London-listed holding company for the hospital group, went into administration in April after months of turmoil over its finances.

Its UAE entity is considering to apply for insolvency under the jurisdiction of Abu Dhabi Global Markets to obtain protection from the court from any enforcement from creditors, similar to Chapter 11 in the US.

The US\$250m loan would help sustain operations and cover advisers' fees while the company navigates insolvency proceedings.

The financing is contingent on ADGM accepting NMC's filing under its jurisdiction.

The financing is likely to be provided by UAE banks that have large exposure to the company, as supporting the business would

improve their chances of recovering part of its outstanding debt.

NMC Health is the largest private healthcare provider in the UAE, operating more than 200 facilities including hospitals, clinics and pharmacies.

Perella is also advising NMC on the sale of its international fertility business, estimating the potential deal at more than US\$500m.

ASIA-PACIFIC

SAMSON PAPER FILES WINDING-UP PETITION

SAMSON PAPER has filed a winding-up petition and an application to appoint provisional liquidators for restructuring purposes.

The winding-up petition was filed on July 18 with the Supreme Court of Bermuda, following an acceleration of debt repayment by certain lenders and the resignation of four directors in relation to disagreements within the board over certain auditing issues.

The company intends to seek appropriate orders from the Bermuda court for the appointment of experienced accountants from a major international accounting firm as joint and several provisional liquidators to facilitate a "light touch" provisional liquidation.

This is so that it will have the benefit of a moratorium on claims, which will give the company time to formulate and implement a financial restructuring, and to maximise the prospects of success for its restructuring plan.

Samson Paper's board, subject to the orders of the Bermuda court and under the

supervision of the provisional liquidators, will continue to manage the company's affairs.

Trading in Samson Paper's shares on the Hong Kong stock exchange has been halted since July 2, pending the release of the company's audited annual results for the year ended March 31 2020.

Samson Paper currently has two outstanding syndicated loans: a HK\$356m (US\$46m) three-year loan completed in July 2019 and a HK\$780m 3.5-year loan signed in September 2017.

Far Eastern International Bank and Fubon Bank (Hong Kong) were the mandated lead arrangers and bookrunners of the 2019 facility, bringing in five other banks.

CTBC Bank, Maybank and Mizuho led the 2017 facility, which attracted 10 other lenders in syndication.

Virgin Atlantic to test new insolvency laws

■ UK Advisers keep close eye on how court interprets new legislation

British airline Virgin Atlantic is set to become one of the first companies to test the UK's new insolvency laws when it goes to court next month with a £1.2bn recapitalisation plan.

Restructuring advisers will be watching with interest how the courts interpret the UK Corporate Insolvency and Governance Act 2020, which became law last month.

"This will be one of the first restructurings to use the new process and is likely to be one of the most significant over the coming months. It will be interesting to see how the English court interprets the new legislation. We will be monitoring developments closely," said Matthew Czyzyk, a partner in Ropes & Gray's business restructuring group.

On July 14, Virgin Atlantic announced it had agreed the recapitalisation deal with a majority of its stakeholders and is now set to use the new laws to gain approval from creditors so it can be implemented.

Advisers are keen to find out if the UK courts will treat the new restructuring plan in a similar way to the existing UK scheme of arrangement. Creditors are divided into separate classes and a certain majority across the classes need to agree to the restructuring being proposed before it can be implemented.

"One big question is whether or not this (new restructuring plan) is effectively the same as a

scheme of arrangement or whether the court will want changes to that process," said Stewart Perry, partner at Fieldfisher.

However, under with the new restructuring plan only 75% of creditors by value across all classes need to agree to the deal before it can be implemented, instead of the more onerous 75% by value and 50% of creditors in each class needed under a scheme.

This means that, unlike with the scheme, a dissenting class can be forced to agree to the restructuring, in a process called a cross-class cramdown.

"They (Virgin Atlantic) must be doing a cross-class cramdown otherwise they would just use a tried and tested scheme of arrangement," said a third restructuring lawyer.

"They are going for it because they are worried one of the classes won't vote in favour or they won't get to the required threshold."

If this happens, under the terms of the new process the court will have to judge whether the crammed down class would be worse off under the restructuring deal than they would be in the event of an alternative, such as a liquidation – a responsibility they do not have under a scheme.

According to Czyzyk, it will likely require the court to consider valuation evidence in relation to a company, something that is

relatively uncharted territory for English courts.

"The court has got to steer a path through this. In the US, which inspires this legislation, courts have to think about valuations a lot. In the UK, valuations have not often been front and centre in the context of schemes," he said.

RESCUE PLAN

Virgin Atlantic has had to close its Gatwick base and cut over 3,500 jobs to reshape in light of the Covid-19 pandemic, which has grounded planes and slashed demand for air travel.

Founder Richard Branson, whose Virgin Group owns 51% of the airline alongside US airline Delta with 49%, said in April the airline would only survive if it received support from the UK government.

However, it managed to clinch a deal without public funding. Virgin Group will invest £200m, as part of £600m in support from shareholders. New partner Davidson Kempner Capital Management, an investment firm, will also provide £170m in secured funding, while creditors are giving the airline support through over £450m of deferrals.

Debt restructuring firm Houlihan Lokey is advising Virgin Atlantic and Deloitte is advising creditors on the recapitalisation.

Sandrine Bradley

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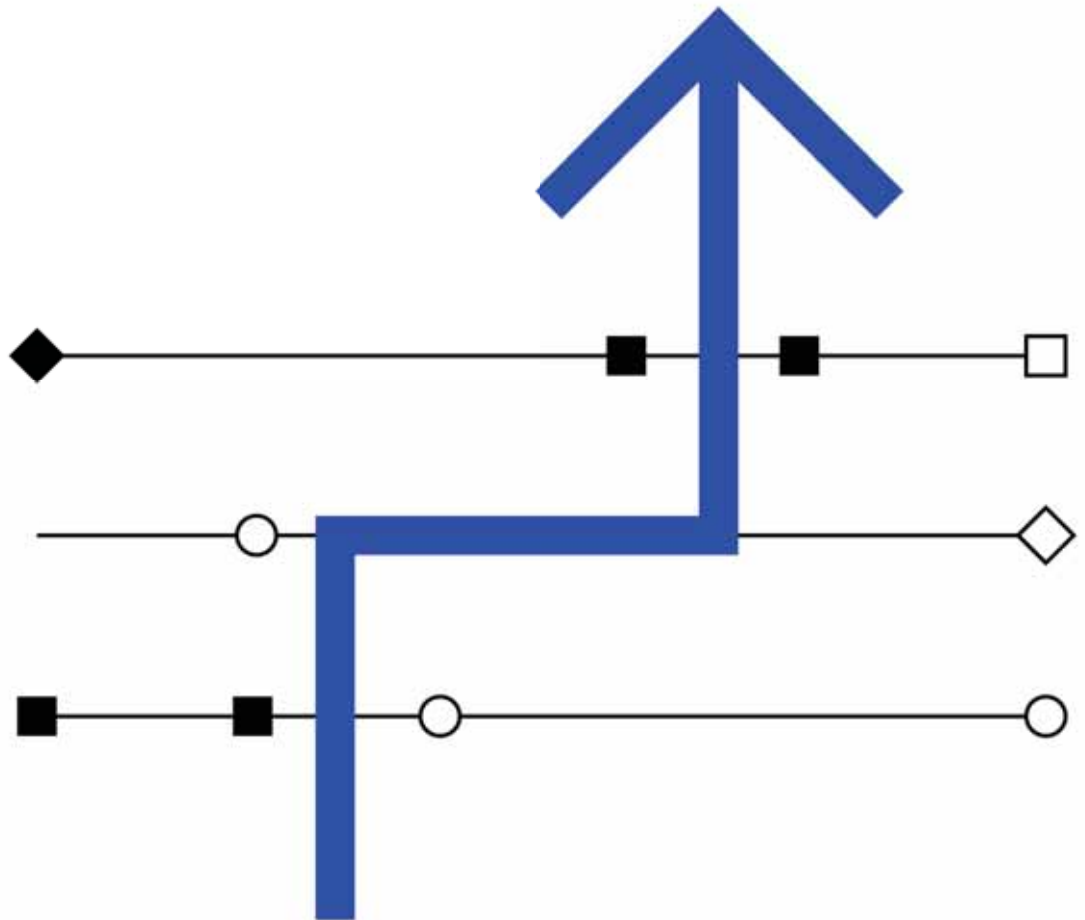
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■ FRONT STORY INDIA

Yes Bank concedes 55% discount

» Two extremes of hedge funds and insurers buy into heavily discounted follow-on

Stressed Indian banks may have to swallow stiff price concessions, as shown by loss-making **YES BANK** pricing a Rs150bn (US\$2bn) follow-on at a 55% discount to the pre-deal close.

Insurers and hedge funds were the main buyers, with underwriter **SBI Capital Markets** taking up the 5% that remained unsold. Under Indian rules, the offer had to achieve 90% subscription in order to close.

The shares were priced at the bottom of the Rs12–Rs13 range and, in the week following the deal, the stock lost a further 27% to trade at Rs14 on Friday, down 70% for the year.

State-owned **IDBI BANK** is planning to raise up to Rs110bn, while **CANARA BANK** and **INDIAN BANK** are looking to raise Rs50bn and Rs20bn respectively. All three are grappling with high loan defaults.

While private sector banks may not have to give such deep discounts, they can no longer price transactions at tight discounts, as they used to do.

AXIS BANK is planning to raise up to Rs150bn through a qualified institutional placement this year. Last year, it raised Rs125bn at a 1.4% discount. Analysts said that further equity issuance so soon indicates that bad loan provisions may be much higher than previously expected.

Axis Capital, BNP Paribas, Credit Suisse, HSBC and UBS are working on the share sale.

The deep 55% discount offered by Yes Bank was the main bait for investors. A QIP would have been capped at a 5% discount.

Hedge fund Tilden Park was the largest anchor by far.

“There were investors from the extreme ends of the spectrum. [Hedge funds] wanted to take advantage of the huge discount and will sell upon allotment, while [insurers are] optimistic that the bank is a good long-term investment,” an ECM banker away from the deal said.

In March, the previous board was dismissed and State Bank of India acquired a 48.2% stake for Rs60.5bn. Other Indian banks bought stakes ranging from 2% to 8%.

SBI said it will invest up to Rs17.6bn as it has to maintain a stake of at least 26% for the next three years. The other banks did not buy shares in the follow-on.

The institutional tranche was 1.9 times covered, the high-net-worth investor piece 63% and retail 47%.

Domestic mutual funds, which normally participate in all deals as anchor investors, were absent from the transaction.

“Retail and high-net-worth investors have started selling as they expect the shares to adjust to the follow-on price,” a Mumbai-based stock broker said. The new shares start trading on Monday.

In June, the Reserve Bank of India prohibited the bank from paying coupons on its Tier 2 bonds because it failed to meet regulatory capital requirements. The equity-raising should restore its ability to service these bonds, helping regain access to the debt markets.

Axis Bank, Bank of America, Citigroup, HSBC, ICICI Securities, Kotak and SBI Capital were the banks on the transaction.

Anuradha Subramanyan

Lufax shuffles banks to avoid clash

» Chinese fintech avoids overlap with rival Ant's IPO syndicate

Chinese online wealth management company **LUFAX** has revamped its line-up of IPO arrangers to avoid a clash with bigger rival **ANT GROUP**.

Lufax, which had planned to list in Hong Kong in 2018, is now working with *Bank of America, Goldman Sachs, HSBC and UBS* on a US deal that could raise at least US\$2bn later this year.

Apart from Goldman Sachs, none of these banks featured among the syndicate Lufax had hired for the Hong Kong IPO. The joint sponsors then were Citic Securities, Citigroup, JP Morgan, Morgan Stanley and Goldman Sachs, but the deal was postponed because of uncertainty over the regulation of consumer lending in China after rules were tightened to rein in the fast-growing sector.

Bankers said Citic and Citigroup had dropped out of the deal some time ago, but JP Morgan and Morgan Stanley had stayed close to the company and had been expected to win senior roles in a US IPO.

JP Morgan is no longer working on the deal, and Morgan Stanley is expected to have a more passive role.

CICC, Citigroup, JP Morgan and Morgan Stanley are working on the Hong Kong leg of Ant Group's dual listing, which is expected to fetch about US\$20bn on a similar timetable to Lufax.

Both mandates could change before the deals are launched.

“Although Ant and Lufax are listing in different markets, both companies want to wrap up their listings by the end of the year. Issuers typically won't be comfortable with banks working on deals from the same sector at the same time,” said a person with knowledge of the matter.

Lufax declined to comment.

Lufax, a unit of Ping An Insurance Group, was valued at about US\$38bn in its previous fundraising round in 2018. Two people said the US IPO could raise at least

US\$2bn, though the valuation has not been discussed yet as the deal is still at an early stage.

One person said Lufax could raise up to US\$5bn if investors are willing to match its last round's valuation.

Since calling off the Hong Kong listing in 2018, Lufax has exited its peer-to-peer lending business and transformed itself into a wealth management and retail lending company.

Lufax's customer assets under management increased by 2.3% between January 1 and March 31 of this year to Rmb354bn (US\$50bn). Over the same period outstanding retail loans rose by 9.5% to Rmb506bn.

Ant Group is the financial services affiliate of Alibaba Group and the parent of Alipay, China's largest mobile payments business.

Fiona Lau

ASIA-PACIFIC

AUSTRALIA

DOWNER EDI RAISES NEW FUNDS

Australian engineering and construction company **DOWNER EDI** has raised A\$340m (US\$242m) from institutional investors in the first leg of a A\$400m 1-for-5.58 entitlement offer.

Institutions took up 97% of their rights, and the rump drew strong demand from both existing shareholders and new institutional investors.

Downer issued 90.4m new shares at A\$3.75 each, representing a 12% discount to the pre-deal close of A\$4.26 on July 20 and a 10.3% discount to the theoretical ex-rights price.

The retail portion is expected to raise A\$61m.

Proceeds will be used to acquire the remaining shares in facility service group Spotless for A\$134.5m, strengthen the group's balance sheet and provide flexibility for further investment.

Following the rights offer, Downer expects its cash and undrawn facilities as at June 30 will total A\$2.1bn. Its net debt will be A\$1.2bn with gearing of 29.3%.

Downer is rated BBB by Fitch Ratings with a stable outlook. The rating agency said the consolidation of Spotless, which will save the group A\$10m–\$15m a year, will help Downer focus on long-term recurring revenues from its core urban services businesses.

Downer, however, is taking a A\$386m one-off charge for the year ending June 30 related to the impact of Covid-19 and the restructuring of its non-core units. Its mining and laundry services divisions are already up for sale, and the group said it would review its hospitality business.

Macquarie and UBS are the underwriters.

CHINA

SUNAC CHINA MULLS MANAGEMENT IPO

SUNAC CHINA is considering spinning off property management services unit **SUNAC SERVICES** in a Hong Kong IPO that could raise up to US\$1bn, according to people familiar with the situation.

The Hong Kong-listed Chinese property developer is working with financial advisers on the transaction, which could come as early as this year, said the people.

According to Sunac China's annual financial report, property management income and other income amounted to Rmb7bn (US\$1bn) in 2019, up 40% from 2018. That income accounted for 4.1% of the group's total revenue.

Sunac China declined to comment.

Chinese property developers are rushing to spin off their property management services arms for separate listings. Those that have done so include Country Garden, Agile Group and Poly Developments and Holdings Group.

China Resources Land and Shimao Group, meanwhile, are planning to list their property management services units this year in Hong Kong to each raise at least US\$500m.

INNOVENT COMPLETES BIGGER FOLLOW-ON

An upsized primary and secondary placement in **INNOVENT BIOLOGICS** has raised HK\$4.65bn (US\$600m).

The company sold 56.2m primary shares, up from 44.2m shares at launch, at HK\$50 per share. The price represents a discount of 4.7% to the pre-deal close for shares representing about 4% of the enlarged share capital.

Innovent chairman De-Chao Michael Yu and family and Capital International Vendors sold 36.8m secondary shares, up from 33.8m shares, at the same price.

The shares were marketed in a HK\$49.80–\$50.80 range.

The deal, which was launched with anchor support from a sovereign fund, was multiple times oversubscribed with about 90 investors participating. Demand came from long-only investors and hedge funds, existing shareholders and healthcare specialists. The top 20 investors took about 90% of the deal.

There is a six-month lock-up on the company and the vendors.

ASIA-PACIFIC EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Morgan Stanley	58	14,594.41	9.6
2 Goldman Sachs	51	9,986.05	6.6
3 CICC	50	9,264.89	6.1
4 China Secs	27	7,743.56	5.1
5 JP Morgan	34	7,599.60	5.0
6 Citic	40	7,049.55	4.6
7 UBS	47	6,422.58	4.2
8 Citigroup	31	5,341.75	3.5
9 Credit Suisse	30	5,235.35	3.4
10 Macquarie	30	4,789.30	3.1
Total	1,333	152,360.36	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4a1

The primary proceeds will be used to build a production facility, fund clinical trials and for general corporate use.

Morgan Stanley was bookrunner.

Innovent's shares rose 2.8% to HK\$53.90 last Thursday and had doubled in the year to-date.

TIGERMED SKIPS CORNERSTONES

Shenzhen-listed **HANGZHOU TIGERMED CONSULTING** has decided not to have a cornerstone investor tranche for its US\$1bn–\$1.5bn Hong Kong listing, according to people close to the deal.

Including cornerstone investors in IPOs is a very common practice in the Hong Kong market as it helps secure a big portion of demand and build momentum for the transactions.

Given overwhelming investor interest in recent healthcare IPOs, Tigermed believes the deal will be well received even without cornerstone support, while it will have more flexibility to set the issue price, said the people.

The Chinese clinical research service provider is tentatively scheduled to open books on Monday and price the deal on Friday.

Bank of America, CICC, CLSA and Haitong International are sponsors.

The company had a market capitalisation of Rmb86.7bn (US\$12.4bn) as of last Thursday, with the stock up 74% this year.

It intends to use the proceeds for potential acquisitions, organic business expansion, biopharmaceutical R&D, to repay borrowings and for working capital.

Tigermed participated in over 400 clinical trials from 2017 to 2019. Headquartered in China, the company has 15 overseas operational sites in Asia-Pacific, North America and Europe.

It posted a 2019 net profit of Rmb975m, up 49% from 2018.

ASIA-PACIFIC EQUITIES (EX-JAPAN)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Morgan Stanley	54	14,382.78	9.9
2 CICC	50	9,264.89	6.4
3 Goldman Sachs	49	8,454.45	5.8
4 China Secs	27	7,743.56	5.3
5 JP Morgan	34	7,599.60	5.2
6 Citic	40	7,049.55	4.9
7 UBS	47	6,422.58	4.4
8 Citigroup	30	5,241.86	3.6
9 Macquarie	29	4,639.95	3.2
10 HSBC	22	4,529.47	3.1
Total	1,252	145,075.51	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4a2

JD HEALTH PLANS HK IPO

JD.com is considering a Hong Kong IPO for **JD HEALTH** in a deal that could raise at least US\$1bn, according to people with knowledge of the matter.

The Chinese e-commerce giant has started work on the listing of its online healthcare unit and could complete the float as early as the end of the year or early in 2021, said the people.

JD Health raised US\$931m last November through the sale of a 13.5% stake in a private financing, valuing the company at about US\$6.9bn. JD.com owns the remaining stake.

Spun off from JD.com in May last year, JD Health provides pharmaceutical and healthcare products and internet healthcare services to customers.

Ping An Healthcare and Technology, backed by the Chinese insurance giant, and Alibaba Health Information Technology, a unit of e-commerce giant Alibaba Group, are both listed in Hong Kong and have seen their shares soar this year.

As of last Thursday, shares of Ali Health were up 148% this year, giving the company a market capitalisation of HK\$289bn (US\$37bn). Ping An Healthcare, also known as Ping An Good Doctor, had surged 117% with a market capitalisation of HK\$132bn.

JD.com's plan to list JD Health in Hong Kong highlights the US-listed company's preference to list businesses closer to its customers, after completing its own US\$4.46bn secondary listing in Hong Kong in June.

JD DIGITS, previously known as JD Finance and another subsidiary of JD.com, has started work on a Shanghai Star IPO.

When JD.com was listed in Hong Kong, the company disclosed in the prospectus that it had applied for a waiver from the Stock Exchange of Hong Kong so that it could spin off a subsidiary and list it on the bourse within three years of its secondary listing.

JD.com did not respond to requests for comment.

FIVE GO TO HONG KONG

China's **E-STAR COMMERCIAL MANAGEMENT**, **STRAWBEAR ENTERTAINMENT GROUP**, **Everest Medicines**, **JOY SPREADER INTERACTIVE TECHNOLOGY** and **MING YUAN CLOUD** are looking to list in Hong Kong.

The five companies filed with the Hong Kong bourse last week without disclosing the timelines and fundraising sizes.

Shenzhen-based E-Star is a property management company for commercial premises mainly in the Greater Bay Area of Guangdong, Hong Kong and Macau. It has

served 49 commercial properties and is expected to raise US\$150m through the float.

It posted a profit of Rmb44.7m (US\$6.4m) for the four months ended April 30, a 0.4% increase from the same period last year. It had an annual profit of Rmb96m in 2019.

CCB International and *China Securities International* are the joint sponsors.

Drama series producer and distributor Strawbear has so far invested in 16 drama series, of which 11 are self-produced. It generates revenue primarily from licensing broadcasting rights and production services for made-to-order drama series.

It posted a profit of Rmb42.9m for the three months ended March 31, more than doubling from Rmb19.9m in the same period the year before. It had an annual profit of Rmb50.4m in 2019.

IPO proceeds are expected to be US\$120m.

China Merchants Securities and *China Securities International* are the joint sponsors.

Biotech Everest Medicines has *Bank of America* and *Goldman Sachs* as joint sponsors.

The company, which counts Hillhouse Capital among its investors, is targeting a US\$300m HK float.

It had considered a US listing but decided on Hong Kong as recent biotech IPOs in the city have generated huge interest from investors.

Everest has eight drug candidates focusing on oncology, auto-immune disorders, and cardio-renal and infectious diseases, and posted a profit of Rmb304m (US\$43.4m) for the three months ended March 31 this year, up from Rmb99m in the same period last year. It had an annual loss of Rmb215m in 2019.

Joy Spreader is planning a Hong Kong IPO of about US\$150m, according to a person close to the deal.

The Chinese media marketing service has *BoCom International*, *China Merchants Securities* and *China Securities International* as joint sponsors.

Joy Spreader connects marketers and media publishers and served 3,806 WeChat publisher accounts as of March 31, giving it a reach of more than 733 million followers.

For the three months ended March 31, it posted a profit of Rmb20.5m (US\$2.9m), nearly double its Rmb10.7m profit for the same period last year. Its annual profit was Rmb67m in 2019.

Ming Yuan Cloud, a Chinese software services provider for property developers, is planning a Hong Kong IPO of about US\$300m with *CICC* and *Citigroup* as joint sponsors.

For the three months ended March 31, it posted a profit of Rmb14.7m (US\$2.1m) against Rmb6.9m a year earlier. It had an annual profit of Rmb232m in 2019.

ANTENGENE PLANS HK FLOAT

Chinese cancer drugs developer

ANTENGENE is planning to raise about US\$200m from a Hong Kong IPO as early as this year, according to people close to the deal.

The biotech company, which counts Celgene Corp among its backers, last week said it had completed a US\$97m private financing led by Fidelity Management & Research, with additional support from new investors including Hillhouse Capital and GIC. Existing investors including Qiming Venture Partners and Boyu Capital also participated.

The company plans to use the proceeds from the private round to fund the development of haematology and oncology therapies, expand in-house research and development capabilities and strengthen its commercial infrastructure.

Antengene's pipeline includes six clinical-stage products for cancer treatment.

Goldman Sachs and *JP Morgan* are leading the planned IPO.

CICC TREBLES SIZE OF SHANGHAI IPO

Hong Kong-listed **CHINA INTERNATIONAL CAPITAL CORPORATION** has more than trebled the number of shares on offer in its proposed Shanghai IPO to 1.44bn from 459m.

The offer will now represent 24.8% of the enlarged capital, instead of 9.5%, and could raise Rmb15.6bn (US\$2.2bn) based on the investment bank's net asset value per share of Rmb10.80 in 2019.

A spokesman said "the original A-share IPO issuance plan can no longer fully meet the company's business development needs for capital" and that this led to the decision to upsize the IPO.

CICC is keen to address its capital scale and strength quickly, and to consolidate its competitive advantage, the person said.

Proceeds will be used to replenish capital and working capital.

Oriental Citi Securities and *Galaxy Securities* have been hired as IPO tutors.

The brokerage posted a net profit of Rmb4.24bn in 2019 on revenues of Rmb22.8bn.

The H-shares have risen 30% this year.

If the deal comes to fruition, CICC will become the 13th Chinese brokerage to have listed A and H shares.

GUOLIAN SEC PRICES SHANGHAI IPO

Hong Kong-listed **GUOLIAN SECURITIES** has raised Rmb2.02bn (US\$289m) from a Shanghai IPO after setting the issue price at Rmb4.25 per share.

The Wuxi-based brokerage sold 476m A-shares, or 20% of the enlarged capital, down from the originally planned 634m.

Proceeds will be used to replenish capital, increase working capital and develop the brokerage's main business.

Nanjing Securities was the sponsor, and joint bookrunner with *Huaying Securities*, the former China joint venture of Guolian Securities and Royal Bank of Scotland Group.

▶ CAMBRICON SURGES ON STAR DEBUT

CAMBRICON TECHNOLOGIES' A-shares surged 296% to Rmb255 in debut trading on the Shanghai Star board last Monday morning from the issue price of Rmb64.39.

The AI chipmaker's shares closed at Rmb212.40, up 230%. Its market capitalisation of Rmb112.4bn (US\$16bn) is the third largest on the Star board, behind Beijing Kingsoft Office Software (Rmb177bn) and Semiconductor Manufacturing International (Rmb134bn).

The company sold 40.1m new shares for a 10% free-float to raise Rmb2.58bn from its IPO, slightly less than its Rmb2.8bn target.

Proceeds will be used for three chip projects and to replenish working capital.

Cambricon's net loss ballooned to Rmb1.18bn in 2019 from Rmb41m a year earlier, while revenues almost quadrupled to Rmb444m from Rmb117m. However, its Q1 revenues dropped 18.9% year-on-year to Rmb11.5m after former partner turned rival HiSilicon, a Huawei subsidiary, cut all of its links with the company last year.

Citic Securities was the sole sponsor of the deal, and joint bookrunner with *CICC*, *Guotai Junan Securities*, and *Essence Securities*.

QI AN XIN TECHNOLOGY GROUP couldn't quite compete but its shares surged 138% to Rmb133.55 on their Shanghai Star market debut on July 22.

The company, formerly known as 360 Enterprise Security Group, raised Rmb5.72bn (US\$816m) from its IPO after pricing it at Rmb56.10 a share, more than its original target of Rmb4.5bn.

It sold 102m A-shares, or 15% of the enlarged capital.

Proceeds will be used for six security projects and to replenish working capital.

Qi An Xin provides network security services, mainly to the Chinese government. It also provides cybersecurity services to the judiciary and other state-owned institutions such as hospitals and the military.

China Securities was the sponsor.

Six other companies made their Star market trading debuts on the same day as Qi An Xin.

INDIA

▶ BVG INDIA TO FILE FOR RS10bn IPO

Facility management company **BVG INDIA** plans to file a draft prospectus for an IPO of Rs10bn (US\$134m) in August and aims to launch it by the end of the year, people with knowledge of the transaction said.

Both primary and secondary shares will be sold. Founder HR Gaikwad and private equity fund 3i are likely to sell shares in the IPO.

BVG is one of India's major integrated services companies and has 65,000 employees.

HSBC, *ICICI Securities* and *JM Financial* are the banks on the transaction.

JAPAN

▶ OPEN HOUSE PRICES FOLLOW-ON

TSE-listed real estate agent and broker **OPEN HOUSE** has raised ¥40.4bn (US\$376m) from a follow-on offering of shares, after pricing it at the tight end of the range at ¥3,104 per share.

It issued 8.3m primary shares and 4.7m treasury shares at a 3% discount to July 20's closing price of ¥3,200. The deal was marketed at an indicative discount of 3%–6% to the market close.

There is a 1.9m-share greenshoe.

The international portion was approximately eight times covered with about 90 investors participating. Allocations were highly skewed towards existing shareholders and roadshow meeting participants. The top 20 investors took around 80% of the offer.

Due to the strong demand, there was a shift of 5% of the allocation to the international tranche, which took 70% of the deal. Domestic retail investors took 25% and local institutions 5%.

The domestic retail book was more than 15 times oversubscribed, while the domestic institutional book was over five times covered, with demand from domestic asset managers and existing shareholders.

SMBC Nikko was sole bookrunner.

MALAYSIA

▶ LOOB DELAYS UP TO M\$300m IPO TO Q4

LOOB HOLDING, the owner of the Tealive bubble tea franchise, has pushed back a Bursa Malaysia IPO of up to M\$300m (US\$71m) to the fourth quarter or early next year from the third quarter because of volatile stock market conditions, a person with knowledge of the transaction said.

CIMB is the bank on the transaction.

Loob Holding, which also owns food and beverage brands such as Ko Kai and Define Food, has outlets in Malaysia, China, Vietnam and Australia.

PHILIPPINES

▶ DOUBLEDragon TO HIRE BANKS FOR IPO

DoubleDragon Properties is close to hiring foreign banks *CIMB*, *Credit Suisse*, *DBS*, *Maybank Kim Eng*, *Macquarie* and *Nomura* as well as local banks *Asia United Bank*, *PNB Capital* and *Rizal Commercial Banking Corp* for an up to Ps17bn (US\$342m) real estate investment trust listing in October.

The syndicate will be finalised when the REIT application is submitted to the Philippine Securities and Exchange Commission in August.

DD MERIDIAN PARK REIT is targeting a yield of 5.5%–6.5%. Last week, DoubleDragon Properties raised US\$75m from a five-year bond issue with a 7.25% coupon.

The REIT will consist of seven buildings with a total area of 248,349 square metres in Metro Manila and an estimated asset value of Ps51bn.

This will be the second REIT to be launched in the Philippines. AREIT is set to raise Ps12bn from an IPO priced at Ps27.

Around 33.33% of the DD Meridian Park REIT will be listed and all the proceeds from the listing will be reinvested in domestic real estate.

▶ AREIT IPO SET TO RAISE PS12bn

AREIT, previously known as AyalaLand REIT, is set to raise Ps12.3bn (US\$250m) from the Philippines' first real estate investment trust IPO after pricing it at Ps27 per share.

The IPO was priced from a Ps25.00–Ps29.50 range which implies a 2021 yield range of 5.37%–6.34%. The final price represents a yield of 5.9%. Demand was strong from long-only institutions.

AREIT is selling 457m shares (409m secondary/48m primary). There is a 45.7m secondary share greenshoe.

The tranche for local retail and trading participants is from July 27 to August 3. The shares will start trading on August 13.

AREIT's portfolio comprises three commercial buildings in Makati city, Manila's central business district, including the newly constructed Ayala North Exchange. The trust also intends to purchase an office building in Cebu.

Ayala Land is a unit of conglomerate Ayala, which has interests in retail, power, telecoms, banking, healthcare and utilities.

AREIT will use the proceeds for investments in real estate in Metro Manila and elsewhere in the Philippines.

BPI Capital is the sole global coordinator and bookrunner with UBS. The two are also joint lead underwriters with PNB Capital and SB Capital.

SOUTH KOREA

SK IET TARGETS US\$1bn KRX IPO

South Korea's SK Innovation is planning a KRX IPO for its subsidiary **SK IE TECHNOLOGY** as early as next year to raise up to US\$1bn, said people close to the deal.

The listing is expected to be the country's largest next year, with a potential market capitalisation US\$5bn. Other market participants are expecting a valuation of at least US\$3bn–\$4bn, according to local news reports.

IFR reported earlier this month that JP Morgan and Mirae Asset Daewoo had been appointed as the joint bookrunners and joint lead managers with Korea Investment & Securities.

More foreign managers may be hired later this year, said one of the people.

SK IE Technology was launched as a spin-off of SK Innovation in April last year. Its primary business includes lithium-ion battery separators used in electric vehicle batteries, and flexible cover windows that can replace glass displays for foldable smartphones.

The company is adding production facilities in China and Poland to meet growing demand.

SK IET did not respond to an email seeking comment.

THAILAND

ADB SELLS GULF ENERGY, GRIMM BLOCKS

The Asian Development Bank has raised Bt9.64bn (US\$305m) from a pair of block trades in Bangkok-listed **GULF ENERGY DEVELOPMENT** and **B GRIMM POWER**, which were priced at the bottom of price ranges.

The multilateral bank sold 176m Gulf Energy shares, equal to a 1.7% stake, at the bottom of the Bt35.15–Bt35.52 range for Bt6.1bn. The sale price was at a 5% discount to the last close of Bt37.00. Gulf Energy shares closed at Bt34.25 on Thursday.

The ADB owned a 3% stake in the company before the sale. Books were multiple times subscribed with around 40 accounts and the top 10 were allocated 70% of the deal.

The ADB sold 68m B Grimm shares, equal to a 2.6% stake, at the bottom of the Bt50.80–Bt51.50 range for a 5.5% discount to last close of Bt53.75 and Bt3.45bn deal size. B Grimm shares ended Thursday at Bt51.50. The ADB owned a 4.72% stake before the block.

Around 40 accounts participated and the top 10 were allocated 75% of the transaction. B Grimm shares are up 2.4% this year.

There is a 60-day lock-up on the ADB.

Citigroup and JP Morgan were the joint bookrunners.

EUROPE/MIDDLE EAST/AFRICA

GERMANY

BIONTECH FOLLOW-ON AS US ORDERS VACCINE

US-listed German vaccine developer **BIONTECH** launched a two-day marketed follow-on that will see Pfizer become a shareholder on Tuesday, just hours before announcing a US\$1.95bn partnership with the pharma giant to produce and deliver more than 100m doses of its Covid-19 vaccine candidate to the US government.

The agreement allows the US government to acquire an additional 500m doses, with Pfizer saying it will not receive any money from the government unless the vaccine is deemed to be safe and effective and is successfully manufactured.

Pfizer and BioNTech secured an agreement with the UK government on Monday for 30m doses of the vaccine to be delivered in 2020–2021, with financial details not disclosed. The UK is covering its bases and also has an agreement with France's Valneva and has signed up for an AstraZeneca vaccine being developed by Oxford University.

The sale was increased in size on Thursday to 5.5m ADSs, from 5m originally, with each ADS representing one ordinary share. The ADSs to be sold are the result of shareholders owning 74.83% of BioNTech not selling or exercising their rights.

The remaining shareholders can subscribe for up to 1.9m ADSs or ordinary shares in a rights issue that runs through August 14.

New and existing investors, including Pfizer, indicated interest in buying up to US\$200m of the ADS offer at launch.

Pricing was set on Thursday at US\$93 for both legs, with the ADS offering sized at US\$511.5m. There is a secondary greenshoe of 825,000 ADSs.

BioNTech shares have nearly tripled so far in 2020.

Pfizer will deliver the doses if the product is approved by the US Food and Drug Administration, pending the results of a Phase III trial expected to launch by the end of this month.

The companies said they expect to be ready to seek regulatory approval as early as October, if the studies are successful. They expect to manufacture up to 100m doses globally by the end of 2020, and potentially more than 1.3bn doses by the end of 2021, subject to final dose selection from clinical trials.

BioNTech raised US\$250m last month from a private placement of common stock and four-year mandatory convertible bonds, anchored by Temasek.

The sale of 6m primary ADSs, representing 2.5% of the company, in February was scuppered by German regulations limiting the discount to 5% on sub-10% fundraisings.

BioNTech has more than US\$1bn of cash to develop its Covid-19 vaccine and to fund its commercial launch.

JP Morgan, Bank of America and Berenberg were lead bookrunners on the ADS sale, which was underwritten, and lead the rights offering. UBS is a bookrunner and Canaccord Genuity is lead manager. Commerzbank, Wolfe Capital Markets and Advisory and Bryan, Garnier & Co are co-managers for the ADS offer.

FULL 'SHOE FOR BROCKHAUS ADDS TO ACQUISITION KITTY

Technology investor **BROCKHAUS CAPITAL MANAGEMENT** fully exercised the 15% primary greenshoe on its Frankfurt float after just four days of trading, taking proceeds to €115m.

Shares in BCM began trading on Tuesday, finishing up 6.25% on debut at €34 from fixed €32 pricing in the float. By Friday, the shares had closed up more than 10% from the IPO price at €35.30 triggering the 'shoe exercise.

The base deal raised €100m for the company and €15m from the greenshoe, which also increases the market capitalisation

EMEA EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Goldman Sachs	44	7,681.62	9.2
2	Morgan Stanley	31	7,500.85	9.0
3	Citigroup	37	7,323.16	8.8
4	JP Morgan	51	6,978.61	8.3
5	Bank of America	32	6,074.46	7.3
6	Credit Suisse	26	5,554.15	6.6
7	Barclays	32	3,923.77	4.7
8	UBS	19	3,154.65	3.8
9	Jefferies	29	2,494.08	3.0
10	HSBC	22	2,201.07	2.6
	Total	586	83,654.15	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C4cr

Vodafone towers IPO slated for early 2021

■ GERMANY Number of billion-plus deals expected next year

VODAFONE'S European towers unit **VANTAGE TOWERS** heads the list of likely German IPOs in 2021, but there is still potential for more German issuance this year, according to bankers.

A German ECM banker said that the pipeline is a little more healthcare-focused than previously, with a number of billion-plus deals expected to come if markets have normalised "post-coronavirus".

Telecoms company Vodafone said last year that it was considering an IPO of its towers business in the following 18 months. The company is working with banks on a potential €3bn–€4bn float, based on a valuation of around €16bn, that would make it the largest IPO in Europe since Knorr-Bremse in October 2018.

Bank of America, Morgan Stanley and UBS are working on the Frankfurt listing for the Düsseldorf headquartered company, which is expected in the first quarter of 2021.

Last July, Vodafone estimated that a standalone European towers business would have revenues of about €1.7bn, Ebitda of around €900m and capex of up to €200m. Vodafone CEO Nick Read said due diligence had shown strong demand for the towers business, with

multiples north of 20 times EV/Ebitda. Ebitda at €900m suggests an enterprise value of €18bn. At the time, Jefferies analysts put a valuation on the towers business of €8bn–€11bn.

On Friday, Vodafone said it had created Greece's largest tower company through a deal with Crystal Almond, the controlling shareholder of Greek mobile operator Wind Hellas, which will be added to Vantage. Crystal Almond has agreed to acquire €100m of shares in the Vantage IPO, Vodafone said.

The new company will also include a 33.2% stake in INWIT, Vodafone's joint venture with Telecom Italia, and Vodafone said it could also add its 50% stake in UK masts company CTIL, its joint venture with O2.

WIDER PIPELINE

More immediately, there are potentially IPOs post-summer for KKR's **HENDSOLDT**, the defence supplier formerly known as Airbus Defence Electronics, and failed 2018 IPO candidate **SPRINGER NATURE**, both of which are defensive plays.

KKR bought the Airbus unit for €1.1bn in 2016 and rebranded it as Hendsoldt, with the valuation now expected to top €2bn. A €1.2bn

float for Springer Nature collapsed in May 2018, when it came with a €3.1bn–€3.9bn valuation. There were reports earlier this year that with leverage now at a less problematic level the business could have an enterprise value of €7bn–€8bn.

In recent years, the post-summer pipeline has tended to focus on September and October, with deals trailing off after that.

Also in the mix for 2021, but potentially later in the year, is oil and gas business **WINTERSHALL DEA**, owned by BASF and LetterOne, which are expected to offer up to 30% of the business with previous valuation estimates at €15bn–€20bn.

Private equity is also part of the IPO mix once more, with other candidates for 2021 including EQT-owned medtech provider **OTTOBOCK**; generic drugs maker **STADA**, owned by Bain Capital and Cinven; and Cinven's laboratory services group **SYNLAB**.

Cinven hired *Lilja & Co* earlier this year to explore an IPO or up to €5.5bn potential sale for Synlab. Cinven bought Synlab from BC Partners for €1.7bn in 2015 and merged it with France's Labco.

Robert Venes

to €332.4m at the IPO price, and takes the free float to 34.6%.

The stock came off on Monday, closing down 3.1% at €34.20.

It is worth noting that the drop related to very little volume, indeed there has been hardly any trading since the shares debuted. On Friday July 17, volume on Xetra was about 6,700, representing 0.2% of the 3.59m shares sold in the IPO. Across all venues volume on Friday was little more than 48,000 shares.

On Friday July 24, the stock was trading at €33.90 after 11am in London.

Proceeds will go towards funding Brockhaus' growth strategy to acquire small and mid-cap German tech companies.

Citigroup and Jefferies were global coordinators, and bookrunners with *Commerzbank*.

LUXEMBOURG

■ ADO COMPLETES €450M RIGHTS ISSUE WITH 97.5% TAKE-UP

ADO PROPERTIES reported 97.5% take-up for a €450m rights issue that will reduce its

debt load following its acquisition of German peer Consus Real Estate, and a rump placing swiftly dealt with the balance.

There were acceptances for approximately 30m out of 30.8m new shares offered on a 5-for-12 basis at €14.60, a 33.1% discount to TERP of €21.83. The remaining 744,941 shares were sold in a rump placing that wrapped up before 9:30am in London and priced at €24.50, flat to the Monday close. The shares opened on Tuesday at €24.84.

A multiple times covered book for the rump was skewed to long-only investors and real estate specialists, with good support from hedge funds.

The rights issue comes as ADO consolidates German residential real estate companies following last December's merger with Adler Real Estate. ADO will become the fourth largest residential real estate company in Europe by gross asset value, with a focus on the top seven German cities around a build-to-hold investment strategy.

ADO shares closed up 4.6% at €25.62 on Tuesday.

Deutsche Bank and JP Morgan were global coordinators, and bookrunners with *Barclays and Kempen & Co*.

ROMANIA

■ HIDROELECTRICA SET TO CLOCK UP 14 YEARS IN ECM PIPELINE

The long-awaited IPO of **HIDROELECTRICA** has been pushed back at least two years by the Romanian parliament, which passed a law postponing privatisations due to the coronavirus pandemic.

The power producer's chief executive Bogdan Badea confirmed last week the IPO is on hold. The law has passed parliament and been upheld by the constitutional court, but has not yet been signed into law by the president.

STJ Advisors was appointed in May to advise on the float for a €950,000 fee, following the appointment of lawyers earlier in the month.

State-owned Hidroelectrica became insolvent in 2012, carried out a restructuring in 2014 but did not come out of insolvency until mid-2016.

The latest incarnation of the float was expected to see 20% of the company sold. It has been a long-term feature of the European IPO pipeline with a sale planned since at least 2008.

RUSSIA

QIWI STOCK SALE VICTIM OF SHARE PRICE FALL

A 9.9% fall in the shares of US-listed Russian payments business **QIWI** scuppered a planned sale of shares by shareholders, with the company confirming the sale of 6.8m ADS representing 13.3% of share capital was cancelled on Thursday.

Bank Otkritie Financial had planned to cut Class B shares to 16m from 21.4m in the base deal, with Qiwi chairman and former CEO Sergey Solonin and current CEO Boris Kim providing the balance in the deal that launched on Monday. There was a 15% greenshoe.

Qiwi put out flash Q2 numbers shortly after 2pm in New York on Tuesday, instead of at launch as is more typical, as shares had fallen 12.4% to US\$16.81. They bounced back initially as high as US\$18.64 before the stock was knocked back to US\$17.29, down 9.9% for the session. At that level, the sale would have fetched US\$117.5m.

A banker involved said the deal was postponed because of price sensitivity and may be revisited in the future. The company blamed market conditions.

Qiwi shares closed at US\$18.75 on Wednesday and opened at US\$18.45 on Friday.

Qiwi guided to a roughly 20% increase in Q2 revenues at the midpoint of the range provided, though revenues from the core payment services business were up only 3.7% at the midpoint in the period.

Adjusted Ebitda rose 43.5% to Rbs3.8bn (US\$53.5m) but was helped by a one-off gain associated with the divestiture of loss-making projects.

JP Morgan, UBS and VTB Capital were bookrunners.

SWEDEN

LARGEST SHAREHOLDER SELLS 4.7% OF SURGING EVOLUTION GAMING

Billionaire property developer Richard Livingstone, who co-owns London & Regional Properties with his brother Ian, made a rare sale from his majority shareholding in Sweden's **EVOLUTION GAMING** on Monday night.

Livingstone is understood to have been a seed investor in Evolution Gaming and the trade was not anticipated by the market, despite a massive run-up in the stock in the last 18 months.

Evolution Gaming is the very definition of a coronavirus beneficiary, although the stock had been on a tear well before the

outbreak. The stock rose throughout 2019, increasing by nearly 178%. In 2020 Evolution has so far risen around 130%, with most of that gain coming since mid-March. The stock is up around 16% since just the end of June.

A wall-crossing exercise during the day on Monday found investors largely working on the basis that Livingstone is using proceeds from Evolution to plug holes elsewhere in the portfolio.

There was also positive sentiment following first-half numbers last week, showing operating revenue increased by 48% to €243.5m, Ebitda was up 85% to €145.3m and profit was €124.6m, versus €63.1m in H1 2019.

Wall-crossing wrapped up with indications of interest in excess of the shares on offer, with formal coverage coming within 20 minutes of the launch of a bookbuild for 8.5m shares, 4.7% of share capital.

Pricing came at SKr650 per share, a 6.5% discount to the SKr695 close, for a deal size of SKr5.52bn (US\$617m).

There were two anchors at the top of a book of more than 80 lines, with the top 10 accounts taking more than 60% of the trade, and the top 20 accounts more than 80%. A significant amount of the stock went to the anchors and existing shareholders.

Livingstone is locked up for 60 days on the remaining 11.7% stake.

The shares opened on Tuesday at SKr654.80 but fell below pricing and closed down 9% at SKr631, still well above where the shares were trading at the start of July.

SWITZERLAND

SHAREHOLDERS BACK MEYER BURGER MANUFACTURING SWITCH

Solar technology company **MEYER BURGER TECHNOLOGY** saw near perfect take-up on its SFr114.5m (US\$123m) rights issue with 98.9% exercised.

Subscription closed at 12pm on Wednesday with just 13.7m shares unsubscribed out of 1.3bn, with those shares offered into the market. The transformational rights issue, which will finance Meyer Burger's switch to manufacturing solar cells, was on a 13-for-7 basis at SFr0.09 each.

Shares closed at SFr0.162 on Wednesday.

A further SFr50m was raised through a private placement.

Credit Suisse was global coordinator on the capital increase, and lead manager with ZKB. ACXIT Capital and ZKB were placement agents on the private placing, with ACXIT Capital advising Meyer Burger.

UK

COUNTRYSIDE PROPERTIES RAISES £250m TO CUT DEBT AND INVEST

UK homebuilder **COUNTRYSIDE PROPERTIES** raised £250m on Wednesday evening to cut debt and provide funds to pursue its growth plans.

Investors had been wall-crossed since Monday, including non-shareholders, allowing time to digest the company's plans, and the process completed with indications of interest in excess of the deal size.

In total, 72.98m shares were sold in the accelerated bookbuild, representing 16.6% of share capital. Pricing of 335p per share was a 6.7% discount to the 359.2p Wednesday close. A further 1.55m shares were sold via the PrimaryBid retail platform at the same price. Senior management and directors of the company put in £402,000 as had been communicated at launch.

Shareholders Standard Life Aberdeen and Aviva Investors put in £30.4m and £21.8m to maintain their respective shareholdings.

A book of around 80 lines was largely made up of UK accounts, with good support from the US and Continental Europe. The top 10 accounts took approximately 60% of the deal.

The stock is down more than 23% in 2020, having hit a record closing high of 540.5p in mid-February. The share sale weighed on the stock on Thursday, opening at 344.2p but swiftly falling below pricing to close at 330.8p. By Friday afternoon, the shares had slipped further to 321p.

All of the group's sales offices reopened on June 1, with robust private sales across the country helped by the government's reduction in stamp duty and Help to Buy scheme. There are forward sales of 7,504 homes at a value of £1.5bn, up 34%, from 5,723 homes at the same point last year.

In the first half, the sale of five parcels of land were put on hold due to the coronavirus, with contracts exchanged on two of the five sales and discussions ongoing for the other three.

Proceeds from the capital raise will back £150m of identified projects and £100m will strengthen its balance sheet.

That will allow the company to grow even if trading conditions deteriorate. Gearing is currently at 62%, with a target of 40% over the next few years.

In addition, revolving credit facility covenants have been relaxed until September 2022, the dividend has been suspended, the executive committee and board have taken a two-month 20% reduction in base salary and fees, and the company has secured eligibility for the Bank

of England's Covid-19 Corporate Financing Facility.

Countryside expects full-year 2020 to be significantly affected by Covid-19, but is projecting volumes to recover strongly in 2021, ahead of 2019 levels.

Corporate brokers *Barclays* and *Numis* were bookrunners.

» HICL INCREASES FUNDRAISING TO £120m

UK-focused **HICL INFRASTRUCTURE** has raised £120m from an upsized follow-on with proceeds to be deployed on an acquisition announced on Tuesday morning.

HICL agreed to acquire the remaining 50% interest in the M17/M18 Gort to Tuam road project in Ireland for €41m.

HICL had already earmarked £75m from the original £100m target for paying down its revolving credit facility following two acquisitions for £103m.

HICL placed 73.17m new shares, representing 3.9% of share capital, having had shareholder approval for up to 10% of outstanding. Heavy demand led to significant scale-back despite the upsize. Pricing was fixed on July 16 at 164p, a 7.68% premium to the last reported NAV on March 31 of 152.3p and a 5.7% discount to the pre-launch close of 174p. Shares closed at 167p on Tuesday.

Sizing at launch was expected to be around £100m and while there was comfortably enough demand for a larger deal, the preference was for £120m.

The deal was oversubscribed with existing shareholder demand but there was also new money in the book, which was dominated by UK demand, as well as from Continental Europe and one order from the US.

HICL shares were flat to the Tuesday close for most of Wednesday, closing a fraction up at 168p.

Investec and *RBC Capital Markets* are brokers to HICL and were bookrunners on the capital raise.

» FREELINE FILES FOR US NASDAQ IPO

FREELINE THERAPEUTICS, a clinical-stage gene therapy company based in the UK and Germany, has filed for a Nasdaq IPO with *JP Morgan* and *Morgan Stanley* leading alongside *Evercore ISI* and *Wedbush PacGrow*.

The Syncona portfolio company raised US\$120m in a Series C financing round at the end of June led by Novo, Eventide Asset Management and Wellington Management, with participation from Cowen Healthcare Investments, Acorn Bioventures and Ample Plus Fund. Syncona contributed US\$40m.

Proceeds were put into its pipeline, including financing a pivotal Phase III trial for its lead treatment for blood-clotting disorder Haemophilia B.

» IAG EYES €2.75bn RIGHTS ISSUE

INTERNATIONAL AIRLINES GROUP, owner of British Airways and Iberia, is considering a €2.75bn rights issue to strengthen its balance sheet, the airline owner said on Friday.

Many airlines around the world have already turned to equity markets to raise funds due to the collapse in travel during the coronavirus pandemic or have been bailed out by governments in the case of some national flag carriers.

The UK government has not looked inclined to give special treatment to any sector, especially when it is unclear when and how quickly air travel will recover. Lawmakers have also criticised BA for changing terms of employment when taking staff off furlough, making any government bailout even less likely.

The company is working with *Goldman Sachs*, *Morgan Stanley*, *Barclays* and *Deutsche Bank* on the plan, several sources told Reuters, expecting an announcement could coincide with results on July 31.

Qatar Airways owns a quarter of IAG, having increased its stake by several percentage points in February.

IAG has a market capitalisation of €4.1bn and target proceeds are approximately €2.5bn so pricing would be at a massive discount to Friday's close of 198.6p. Cellnex's €4bn rights issue for acquisitions is priced at a 25% discount to TERP, while Nordic airline SAS's SKr4bn (US\$450m) rights issue in September will come at a 40% discount to TERP even though there are commitments for 81.5% of the deal. A 40% TERP discount for IAG would likely put pricing below 70p.

Low-cost carrier Easyjet raised funds through an accelerated 15% capital increase in late June at 703p and shares closed on Friday at 589p.

AMERICAS

UNITED STATES

» ECM BANKERS PUSH THROUGH EARNINGS, SUMMER

Bankers expect the IPO market to heat up next week, promising a busier summer than normal for new issues.

Tax-software specialist **VERTEX** is scheduled to price its US\$338m IPO post-close on Tuesday, followed by Phase II T-cell biotech **ALLOVIR** (US\$265m) on Wednesday and Nasdaq-bound Brazilian online education company **VASTA PLATFORM** (US\$325) on Thursday.

Mortgage lender **ROCKET COMPANIES** (US\$3bn-plus), agriculture cooperative **VITAL FARMS** (US\$100m), e-commerce platform BigCommerce (US\$100m) and PE-backed cloud infrastructure play **RACKSPACE TECHNOLOGY** (US\$1bn-plus) could all launch IPOs in the coming week.

A flood of earnings releases is likely to again slow the pace of secondary sales, though logical candidates for secondary sell-downs begin to report over the next few weeks.

The past week saw US-listed companies raise a modest US\$3.1bn from IPOs, follow-on stock sales and convertible bonds (excluding SPACs), down from US\$4.2bn a week earlier.

The biggest corporate IPO came from Apple software provider **JAMF**, whose shares jumped 50% after the deal was priced well above expectations amid excess demand.

However, much of the action in ECM is now being driven by SPACs.

Bill Ackman's **PERSHING SQUARE TONTINE** led the latest SPAC funding blitz, raising US\$4bn of the US\$4.9bn secured by SPACs during the week.

At least 15 SPACs seeking US\$5bn sit in the IPO backlog, while existing SPACs now hold more than US\$30bn of cash to deploy on business combinations.

» MONTROSE IPO TURNS GREEN IN AFTERMARKET

MONTROSE ENVIRONMENTAL GROUP, a provider of environmental remediation services, defied expectations last Thursday by soaring 46.7% on its NYSE debut, despite pricing at the low end of price talk.

"It was little bit tough," conceded one banker involved with the US\$150m deal. "Some investors pushed back because of the company's small size. We were also challenged by a limited peer set."

Joint lead bookrunners *Bank of America* and *William Blair* placed 10m shares at US\$15.00 apiece, the bottom of the US\$15–\$17 marketing range and valuing the company at a little over US\$300m. *BNP Paribas*, *Capital One Securities* and *Stifel* were also joint bookrunners.

The banks concentrated allocations in the hands of dedicated alternative energy and ESG specialists as well as hedge funds seeking to diversify. As part of a directed share programme, 5% of the deal was held back for designated individuals with any unallocated portion of the DSP tranche sold to retail through *Fidelity Capital Markets*.

Despite pricing at the bottom of the range, Montrose opened Thursday trading at US\$16.50 and rose steadily throughout the session to close at US\$22.00, with a US\$18.63 one-day VWAP.

Jamf ups price, size, still soars on debut

■ US Apple device software provider draws big crowd

JAMF followed in the well-defined footsteps of other recent hot tech deals by significantly upping its asking price during the marketing phase before staging a robust Nasdaq debut on Wednesday.

A syndicate led by *Goldman Sachs*, *JP Morgan*, *Bank of America* and *Barclays* priced 18m shares in the Apple-based enterprise software firm at US\$26.00 to raise US\$468m, well up from the original terms of 16m shares at US\$17–\$19.

The increase in size all came from additional selling from sponsor Vista Equity Partners, which offloaded 4.5m shares versus 2.5m at launch. With exercise of the greenshoe, Vista's stake in Jamf falls to 72.9% from 89.5% pre-IPO.

There was little doubt about the outcome given the syndicate upped the range of US\$21–\$23 ahead of pricing, though to then price three dollars above the top of the new range again highlighted blazing hot software valuations.

Debating on Nasdaq on Wednesday, a day earlier than planned, Jamf shares opened at US\$46.00 for a 77% gain. This proved too hot to handle, the shares easing before closing their first session at US\$39.20, a more measured gain of 50.8%.

At the highs, Jamf carried a market cap of US\$5.35bn versus annualised recurring revenue of US\$225m, the former well up from the US\$733.8m price Vista paid for its majority share in November 2017.

SCARCITY

As with other recent tech IPOs, the scarcity factor helped drive heavy oversubscription.

Apart from the relative lack of software IPOs versus biotech, the offering comprised only 15% of the company with US\$100m of the deal spoken for upfront by Dragonair Investment Group and Tiger Global Management, split equally.

Assuming 30%–40% sales growth and based on the marketed terms, Jamf was

coming at roughly 10 times this year's sales, leaving upside given the average public SaaS companies' forward EV/sales multiple runs into the mid-teens while some recent software IPOs including nCino earlier this month have run far higher.

One mark against Jamf was Apple's move last month to buy FleetSmith for an undisclosed amount, casting some doubt about Jamf's ongoing relationship with Apple, which is a customer and a channel partner.

FleetSmith automates enterprise security for Apple Macs, iPhones and iPads.

The IPO was only the second debut out of the portfolio of Vista Equity Partners, which took Ping Identity public last year and is eyeing an IPO of another holding, cybersecurity firm Datto.

Despite surging software valuations, few seem to be expressing concerns they may be stretched.

Anthony Hughes

Montrose provides environmental remediation and water treatment services to companies and municipalities, both on a recurring and consulting basis.

The company has made more than 50 acquisitions in the past eight years, including the purchase earlier this year of CTEH for US\$200m, its largest-ever acquisition. It funded the US\$175m cash component of the CTEH purchase through the sale of 9% preferred stock to Oaktree Capital Management.

Oaktree is Montrose's largest shareholder, at 15.9% post-offer, after exercising warrants associated with the preferred stock investment.

Montrose's strategy of consolidating the environmental engineering space comes with high debt leverage. In addition to US\$150m of the Oaktree preferred, Montrose has US\$200m of debt outstanding on a term loan and revolving credit facility.

In the first quarter, Montrose generated adjusted Ebitda of US\$16.1m on revenue of US\$92.3m, including contributions from CTEH.

At pricing, Montrose was valued at a low double-digit multiple of EV-to-Ebitda, versus the five to six times multiple required to purchase companies like CTEH.

■ VERTEX LAUNCHES US\$338.4m IPO

The raging success of the 2018 IPO of sales tax software company Avalara looks almost certain to draw a crowd to

rival **VERTEX**, which early on Monday launched a Nasdaq offering of 21.15m shares at US\$14–US\$16 to raise up to US\$338.4m.

Goldman Sachs and *Morgan Stanley* head a syndicate that expects to price Vertex's IPO on July 28, though if recent experience is anything to go by, they may not need seven days of marketing to get the job done.

Vertex had been selling subscription software well before that became the standard revenue model in the cloud era, though its hybrid model means that cloud software still forms the minority of those subscription sales (the majority being on-premise software).

With revenue having grown in the high-teens to US\$322m last year, the 40-year-old Vertex is lower growth than Avalara, whose shares have risen four-fold since it went public shortly after a landmark case allowed states to collect sales tax on goods sold online.

Both companies play into the increased reliance of governments on indirect taxes and the complexity associated with them.

Though Vertex's top-line growth (mid-teens in the most recent quarter) is also slower than many recent software IPOs, it is Ebitda and free cashflow-positive, with Ebitda margins in the low 20s.

Annualised recurring revenue, a metric that analysts are increasingly using to value software companies, stood at

US\$292m–\$295m at the end of the second quarter, according to preliminary numbers.

Assuming top-end pricing, Vertex would come to market with a fully-diluted market cap of about US\$2.2bn and leave it with US\$125m of net cash.

The all-primary IPO proceeds will wipe out debt accumulated to pay a US\$123m dividend to stockholders in May. Most of this went to the Westphal family members that control the company.

Vertex is coming to market at a much lower EV/sales multiple than Avalara, which trades at 18 times forward sales, according to Refinitiv data. Though Avalara is not profitable, it is growing subscriptions at a 35% pace.

US EQUITIES

BOOKRUNNERS: 1/1/2020 TO DATE

	Managing bank or group	No of issues	Total US\$(m)	Share (%)
1	Goldman Sachs	106	19,622.36	13.1
2	Morgan Stanley	89	18,478.77	12.4
3	JP Morgan	113	17,924.58	12.0
4	Bank of America	111	16,565.88	11.1
5	Citigroup	71	13,650.10	9.1
6	Barclays	59	10,337.12	6.9
7	Credit Suisse	46	6,376.07	4.3
8	Jefferies	68	4,177.73	2.8
9	Evercore Partners	30	3,880.93	2.6
10	Wells Fargo	48	3,719.50	2.5
	Total	460	149,424.64	

Including all domestic and international deals and rights issues

Source: Refinitiv

SDC code: C3r

Biotech fatigue wears on IPO market

■ US Four biotechs trade flat on Friday debuts

In the current funding window where seemingly nothing can miss – the class of 2020 IPOs are up 46% from offer – and order inflation is rampant, setting the right price has become increasingly tricky.

Even biotechs, whose livelihood depends on continued access to capital, are finding it tough to get the balance right between maximising proceeds and securing the requisite aftermarket pop.

“When you see investors lift their price to get size, it becomes tricky to price and allocate an IPO,” said one syndicate head. “The rear-view mirror on biotech IPOs is not 60 days old. It used to be that pricing in the range, anywhere in the range, was a good outcome.”

ANNEXON, INOZYME PHARMA, ITEOS THERAPEUTICS and **NURIX THERAPEUTICS** all priced IPOs on Thursday night, increasing the size of their offerings in each case, and pricing at the high end or above the valuation marketed.

iTeos and Nurix broke offer, falling 0.1% and 0.7%, while Inozyme and Annexon were up 5% and 2.7%, all through midday Friday trading.

Annexon, Inozyme and Nurix had all upped the size of their offerings in response to surplus demand during the bookbuilds, and iTeos did the same at pricing.

Annexon priced 14.75m shares at US\$17.00, above the US\$14–\$16 marketing range and up from 10m shares at launch.

JP Morgan, Bank of America and Cowen were joint bookrunners.

Annexon, a Phase I drug developer focused on auto-immune diseases, raised US\$102m on its Series D private sale just last month.

Inozyme, a pre-clinical biotech tackling rare calcification diseases, followed a similar progression with a US\$33m crossover round last month, though that was less than hoped for.

Bank of America, Cowen and Piper Sandler found a more favourable response to the public offering, bumping the size from 5m to 7m shares and fixing talk at US\$16.00, the high end of a US\$14–\$16 marketing range, late in the bookbuild for US\$112m proceeds.

Nurix, a pre-clinical cancer therapeutics biotech, took in a similarly impressive haul in the pricing of 11m shares at US\$19.00, above the original US\$16–\$18 range marketed and a significant bump from the 8.8m shares at launch for US\$209m.

JP Morgan, Piper Sandler and Stifel had sought to tamp down demand on Thursday morning by increasing the offering size to 11m shares and narrowing talk to US\$17–\$18.

iTeos, a Phase I/II developer of cancer therapies, landed US\$201m from the sale of 10.6m shares at US\$19.00, above the \$16–\$18 range marketed and a nearly 20% upsize from the 8.9m shares marketed.

JP Morgan, SVB Leerink and Piper Sandler were joint books on iTeos.

There have been 11 biotechs that have gone public this month alone.

Stephen Lacey, Robert Sherwood

The secondary component saw Madison Dearborn cut its stake to 72.1% from 80.7%, leaving the firm with another 134.6m shares it can look to sell after a 90-day lock-up.

► GERDINS LIGHTEN HEARTLAND HOLDING

HEARTLAND EXPRESS' founding Gerdin family raised US\$66.85m from the overnight sale of part of their holding in the truck freight operator.

Late on Tuesday, sole bookrunner *Morgan Stanley* priced the secondary offering of 3.26m shares, 4% of outstanding, at US\$20.50, inside the US\$20.45–\$20.75 marketing range and a 4.7% discount to US\$21.52 last sale. The shares eased to US\$20.23 in Wednesday's aftermarket.

The offering cut the stake held by the family, including their trusts and partnerships, to 40.3%.

There is a 90-day lock-up on further sales.

The family last sold stock in 2015 and the latest sale follows a 40% jump in Heartland's share from Covid-19 lows and came just days after the company reported its second-quarter revenues rose 13.2% to US\$160.9m.

Heartland notes in its filing it has never issued primary shares for cash and has repaid from cashflows all long-term debt to fund acquisitions.

► KINIKSA PIVOTS INTO EQUITY

KINIKSA PHARMACEUTICALS turned to the equity market for US\$125m of new funding after receiving the FDA's Orphan Drug designation for its treatment for pericarditis, a debilitating autoimmune disease.

Kinksa shares plunged 9.3% to US\$21.65 over a one-day marketing period on Tuesday, despite having an indication of interest from an undisclosed existing investor.

Goldman Sachs, Bank of America and JP Morgan placed an upsized offering of 5.95m shares at US\$21 from the original US\$100m proceeds target.

The existing shareholder increased its support for the deal to US\$30m from US\$25m at launch.

Baker Brothers is the biotech's top shareholder with an 11.5% stake and has a reputation of participating in deals to avoid diluting its ownership.

Kiniksa announced Phase III trial results of its pericarditis drug last month. The FDA awarded the drug Orphan Drug designation, accelerating the approval process by giving Kiniksa's new drug application a priority review.

Kiniksa expects to apply for FDA approval by the end of this year.

► OPTION CARE BROADENS INVESTOR BASE

Investors could be excused for not immediately recognising the name **OPTION CARE HEALTH**, which made a difficult introduction to US ECM by pricing a sharply discounted and downsized US\$225m follow-on late on Tuesday.

Controlled by private equity firm Madison Dearborn Partners after its merger with publicly traded BioScrip last year, the provider of infusion therapy services was making its first visit to ECM since that deal but paid a price to do so.

It had to settle for far less than the US\$350m target because of its lack of stock liquidity or an established institutional investor base, though the offering began the process of broadening support.

After a day of marketing, a syndicate led by *Bank of America* priced the sale of 18m

Option Care shares, including 10m primary shares and 8m from Madison Dearborn, at US\$12.50, a hefty 21.9% file-to-offer discount.

Option Care raised US\$125m in primary proceeds as planned but Madison Dearborn sold only US\$100m of stock versus its original hopes of offloading US\$225m.

The pricing discount may have been exaggerated by an unseasoned 10% spike in the shares during Monday's session, the deal having launched post-close on Monday.

The offering priced well up from the stock's Covid-19 low of US\$5.74 in mid-March.

The primary proceeds enable Option Care to pare its net debt to about US\$1.22bn through repayment of some of its second lien notes.

DUCK CREEK DRIFTS TOWARDS US\$200m IPO

DUCK CREEK TECHNOLOGIES filed on July 23 for a US\$200m Nasdaq IPO led by *Goldman Sachs* and *JP Morgan*, putting the deal on track to price in mid-August.

A provider of software to the property and casualty insurance industry, Duck Creek first filed confidentially on November 25 last year.

Founded in 2000 and now backed by private equity firm Apax Partners, Accenture and Kayne Anderson Rudnick Investment Management, the company grew revenue 24.3% to US\$153.4m in the nine months ended May 31 2020.

Ahead of the IPO, Duck Creek has completed several private financings, including a US\$120m raise in November last year, another US\$100m in February this year and another US\$200m in June, though these funds were largely used to redeem stock from Apax and Accenture.

The IPO proceeds will be partly used for the same purpose.

An earlier version of the filing in March foreshadowed that existing investors including Dragonair Investment Group, Neuberger Berman and Insight Partners would buy shares at the IPO, though that commitment is not on the cover of the latest filing.

GORES GROUP FILES FOR FIFTH SPAC IPO

West Coast SPAC powerhouse Gores Group filed last week for a US\$400m IPO of **GORES HOLDINGS V**, its fifth sponsored SPAC following the US\$425m raise in January by Gores IV.

Gores IV has yet to announce an acquisition, though Gores-run SPACs successfully closed the purchases of Hostess Brands in November 2016, Verra Mobility in October 2018 and PAE last November.

Deutsche Bank and *Morgan Stanley*, which combined efforts on IV, are bookrunners.

Gores V is structured as one share, one-fifth warrant unit structure, slightly more aggressive gearing than the one share, one-fourth warrant of IV and continuing a trend towards less dilutive vehicles by established sponsors.

Gores V and IV are otherwise identically structured with a US\$2m holdback for working capital, another US\$1.1m of interest earned annually on trust proceeds available to the sponsor, and a 24-month investment horizon.

Both have a similarly diverse target universe spanning industrials, TMT, healthcare and consumer products.

Gores Group founder Alec Gores, MD Mark Stone, director of tax and finance Andrew McBride are chairman, CEO and CFO of both V and IV, respectively.

The only difference is that IV's investment horizon expires in January 2022 and V's in August 2022, the latter depending on timing of its IPO.

Lifescience-focused VC Perceptive Advisors filed documents last week for a US\$125m IPO of ARYA Sciences Acquisition III. ARYA III is structured entirely as common stock, providing the ability to negotiate an acquisition without the dilution baggage of warrants.

RA Capital was the first to bring a warrant-less SPAC with the US\$135.7m IPO earlier this month of Therapeutics Acquisition, and that vehicle is nearly 50% above offer at US\$14.82.

As was the case on Therapeutics, Perceptive has committed to invest US\$25m on an acquisition through a forward purchase agreement.

KISMET ACQUISITION ONE, a Russian-focused SPAC headed by serial entrepreneur Ivan Tavrín, filed documents Tuesday for a US\$250m IPO.

Sponsor Kismet Capital, the investment firm founded by Tavrín, has pledged to invest US\$20m through a forward purchase agreement.

Kismet Acquisition intends to focus on telecommunications infrastructure, internet, tech, and consumer goods and services sectors operating in Russia, with a specific eye towards roll-up strategies to consolidate.

That remit is consistent with Tavrín's background as former CEO of LSE/Moscow-listed MegaFon.

Credit Suisse and *Bank of America* are bookrunners on the Kismet Acquisition IPO.

BRAZIL

VASTA SEEKS US\$325.1m FROM NASDAQ DEBUT

Marking the first Brazil-to-US IPO since Covid-19 began, **VASTA PLATFORM** plans to price an up to US\$325.1m Nasdaq IPO on Thursday.

Hoping to replicate the success of Brazil-to-US edutech IPOs in recent years such as Arco Platform (2018) and Afya (2019), *Goldman Sachs*, *Bank of America*, *Morgan Stanley* and *Itau* are leading the sale of 18.58m shares at US\$15.50–\$17.50. The terms attribute Vasta a market cap of about US\$1.5bn.

Vasta is the Sao Paulo-based K-12 digital education unit of domestically-listed private education company Cogna.

Cogna's corporate imperatives are partly driving the deal. It is not selling any shares, but half of the proceeds will repay debt saddled with Vasta.

The IPO would leave Cogna with a 77.6% stake it may look to progressively sell over time.

As its key comp, Arco's 170% gain since its IPO is likely to be front of mind for investors, as will the opportunities for digital education businesses to thrive in the post-pandemic world.

"They did a pretty extensive testing-the-waters exercise with traditional US tech investors as opposed to emerging markets/LatAm investors," one banker said.

Vasta grew its top-line at only 11.1% to US\$75.5m in the first quarter of 2020 but expects to report a second-quarter revenue decline of up to 16.8%.

However, underwriting banks are modelling Vasta with 20%–30% top-line growth, justifying a 19–20 times forward EV/Ebitda multiple versus the low 30s for Arco.

Cogna trades on a substantially lower multiple than both of those numbers, highlighting the value creation opportunity by bringing Vasta public.

In February, Cogna itself raised US\$590m from a capital increase to reduce debt and position itself for M&A.

However, Cogna shares have struggled this year, falling 20% and trading below the R\$11.00 price at which it sold stock at that time.

Asked about Vasta on Cogna's May earnings call, Cogna CEO (and Vasta chairman) Rodrigo Galindo told analysts Vasta had proved "very resilient, perhaps the most resilient of all our business lines even in a crisis such as now".

Two-thirds of Vasta's revenue is in the form of subscriptions, the rest e-commerce textbook and school materials sales to its more than 4,000 partner schools that serve 1.3m students.

CANADA

BROOKFIELD CASHES IN THROUGH TAX-ADVANTAGED SUBSIDIARY

Brookfield Asset Management (BAM), the Canadian alternative asset manager, cashed in a portion of its stake in Brookfield Infrastructure Partners (BIP) through a C\$275m (US\$200m) overnight block sale last week of **BROOKFIELD INFRASTRUCTURE CORPORATION** (BIPC), a newly created vehicle designed to streamline tax inefficiencies of owning the underlying limited partnership.

BAM sold 4.4m BIPC shares that are exchangeable into BIP units on a one-for-one basis. The asset manager reduced its stake in BIPC to 21% while its stake in the larger BIP was diluted to 29%.

ECM DEALS: WEEK ENDING 24/7/2020

Stock	Country	Date	Amount	Price	Deal type	Bookrunner(s)
Downer EDI	Australia	22/07/2020	A\$400m	A\$3.75	Follow-on (primary)	Macquarie, UBS
Irani Papel e Embalagem	Brazil	22/07/2020	R\$405.0m	R\$4.50	Follow-on (primary)	Itau, Credit Suisse
Innovent Biologics	China	23/07/2020	HK\$4.65bn	HK\$50	Follow-on (primary/ secondary)	Morgan Stanley
Man Wah Holdings	China	23/07/2020	HK\$814m	HK\$7.68	Follow-on (secondary)	HSBC
ADO Properties	Germany	20/07/2020	€450m	€14.60	Rights issue	JP Morgan, Deutsche Bank, Barclays, Kempen & Co
BioNTech	Germany	22/07/2020	US\$511.5m	US\$93.00	Follow-on (primary, secondary)	JP Morgan, Bank of America, Berenberg, UBS
Yes Bank	India	17/07/2020	Rs150bn	Rs12	Follow-on (primary)	Axis, Bank of America, Citibank, HSBC, ICICI Securites, Kotak, SBI Capital
Open House	Japan	20/07/2020	¥40.4bn	¥3,104	Follow-on (primary)	SMBC Nikko
Cellnex Telecom	Spain	23/07/2020	€752.8m	€57	Accelerated bookbuild (secondary)	Goldman Sachs
Evolution Gaming	Sweden	20/07/2020	SKr5.52bn	SKr650	Accelerated bookbuild (secondary)	Morgan Stanley
Meyer Burger	Switzerland	22/07/2020	SFr165m	SFr0.09	Rights issue	Credit Suisse, ZKB
B Grimm Power	Thailand	22/07/2020	Bt3.5bn	Bt50.80	Follow-on (secondary)	Citigroup, JP Morgan
Gulf Energy Development	Thailand	22/07/2020	Bt6.2bn	Bt35.15	Follow-on (secondary)	Citigroup, JP Morgan
Countryside Properties	UK	22/07/2020	£250m	335p	Accelerated bookbuild (primary)	Barclays, Numis
HiCL Infrastructure	UK	21/07/2020	£120m	164p	Follow-on (primary)	Investec, RBC Capital Markets
Annexon	US	23/07/2020	US\$250.8m	US\$17.00	IPO (primary)	JP Morgan, Bank of America, Cowen
Ascendant Digital Acquisition	US	23/07/2020	US\$360.0m	US\$10.00	SPAC IPO (primary)	UBS
Aurinia Pharmaceuticals	US	22/07/2020	US\$200.0m	US\$15.00	Accelerated bookbuild (primary)	Jefferies, SVB Leerink
East Resources Acquisition	US	22/07/2020	US\$300.0m	US\$10.00	SPAC IPO (primary)	Wells Fargo
Heartland Express	US	21/07/2020	US\$66.9m	US\$20.50	Accelerated bookbuild (secondary)	Morgan Stanley
Inozyme Pharma	US	23/07/2020	US\$112.0m	US\$16.00	IPO (primary)	Bank of America, Cowen, Piper Sandler
iTeos Therapeutics	US	23/07/2020	US\$201.1m	US\$19.00	IPO (primary)	JP Morgan, SVB Leerink, Piper Sandler
Jamf	US	21/07/2020	US\$468.0m	US\$26.00	IPO (primary, secondary)	Goldman Sachs, JP Morgan, Bank of America, Barclays, RBC Capital Markets, Mizuho, HSBC
Kiniksa Pharmaceuticals	US	21/07/2020	US\$125.0m	US\$21.00	Follow-on (primary)	Goldman Sachs, Bank of America, JP Morgan
Montrose Environmental Group	US	22/07/2020	US\$150.0m	US\$15.00	IPO (primary)	Bank of America, William Blair
Nurix Therapeutics	US	23/07/2020	US\$209.0m	US\$19.00	IPO (primary)	JP Morgan, Piper Sandler, Stifel
Option Care Health	US	21/07/2020	US\$225.0m	US\$12.50	Follow-on (primary, secondary)	Bank of America, Barclays, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley, SunTrust Robinson Humphrey, William Blair, Lake Street
Pershing Square Tontine	US	21/07/2020	US\$4,000.0m	US\$20.00	SPAC IPO (primary)	Citigroup, Jefferies, UBS
Property Solutions Acquisition	US	21/07/2020	US\$200.0m	US\$10.00	SPAC IPO (primary)	EarlyBird Capital

BIP completed the spin-off of BIPC in March as a way to eliminate tax inefficiencies of owning a limited partnership.

RBC Capital Markets, TD Securities, Scotiabank, BMO Capital Markets and CIBC Capital Markets shared risk on the placement of BIPC shares at C\$62.25, a 5% discount to C\$65.53 last sale but a premium to the C\$58.57 BIP reference close.

BIPC closed Wednesday post-pricing at C\$63.31, a 10.5% premium to BIP's C\$57.31 reference close.

BIPC and BIP holders receive the same 48.5-cent quarterly dividend, a 3.1%/3.4% annual yield, but trade at different levels because of taxes.

"An individual investor in Ontario that pays full taxes gets the exact same dividend, but the after-tax return is 9% higher for BIPC holders than BIP," one Canadian ECM banker said. "A lot of institutions and retail investors don't want to deal with the complexity of owning a limited partnership."

STRUCTURED EQUITY

CHINA

SDIC CAPITAL OPENS BOOKS FOR CB

Shanghai-listed **SDIC CAPITAL** opened the books for a Rmb8bn (US\$1.1bn) six-year convertible bond issue on July 24.

The initial conversion price is Rmb15.25. The CB offering, which has received a AAA rating from United Rating, pays an initial coupon of 0.2% in year one, stepping up each year to 2% in year six.

Proceeds will be used to raise the capital of subsidiary Essence Securities, which in turn will invest in IT services and credit transaction and equity securities investment businesses, and to raise the capital of two other Essence subsidiaries.

SDIC Capital, owned by the State-owned Assets Supervision and Administration

Commission, holds 99.9% of Essence Securities.

The company posted a 2019 net profit of Rmb3.5bn, up 73%, on revenues of Rmb11.3bn.

Guotai Junan Securities and Essence Securities are the joint sponsors.

ZHONGJIN LINGNAN COMPLETES CB

Shenzhen-listed **SHENZHEN ZHONGJIN LINGNAN NONFEMET** has raised Rmb3.8bn (US\$538m) from a six-year convertible bond issue.

The initial conversion price is Rmb4.71. The CB offering, which has received an AA+ rating from China Chengxin International Credit Rating, pays an initial coupon of 0.2% in year one, stepping up each year to 2% in year six.

The company will use the proceeds to build an underground mining site in the Caribbean island of Dominica, upgrade a smelter and a mining site in Guangdong province, and replenish working capital.

The company posted a 2019 net profit of Rmb871m on revenues of Rmb22.8bn.

China Securities is the sponsor.

GRAND AUTOMOTIVE SIX-YEAR CB APPROVED

Shanghai-listed **CHINA GRAND AUTOMOTIVE SERVICES GROUP**'s planned Rmb3.37bn (US\$483m) six-year convertible bond issue has been given final written approval by the China Securities Regulatory Commission.

Proceeds will be used to upgrade physical outlets and IT services, build used car trading markets and repay interest-bearing liabilities.

The initial conversion price will be not less than the average A-share price in the 20 trading days before the final CB prospectus is issued.

Citic Securities is the sponsor.

FRANCE

WORLDLINE RAISES €600m FROM CB FOR INGENICO FUNDING

French electronic payments business **WORLDLINE** picked up €600m through a five-year OCEANE convertible bond on Thursday as part of the funding for its US\$6.8bn acquisition of French peer Ingenico announced in February.

Worldline said in February that Ingenico shareholders would receive 11 Worldline shares and €160.50 in cash for every seven Ingenico shares held, with the deal expected to close in the third quarter.

At launch, the OCEANE (which converts into new and/or existing shares) was offered at 105.1%-107.5% versus par redemption, with no coupon for a negative 1.44% to negative 0.99% yield-to-maturity. The premium range was 55%-60%. There is a call from three years subject to a 130% hurdle.

Worldline is rated BBB (stable) by S&P, and issued a €600m zero-coupon 2026 CB almost exactly a year ago in its equity-linked debut. At that time, Worldline was buying ABN AMRO's remaining stake in EquensWorldline in the Netherlands. There is also a €500m exchangeable by ATOS into Worldline from October.

Inputs were also provided by a straight bond maturing in 2024, which is trading at a credit spread of 80bp, and another maturing in 2027 trading at 112bp.

A banker involved said that while there was already a reasonable amount of convertible debt outstanding, there was still room for more issuance and plenty of interest in the equity story, particularly

with the transformational Ingenico acquisition.

The key, he said, was in making pricing attractive, given that the outstanding CB and EB are both trading very rich.

There was little pushback on a credit assumption of 100bp with borrow available at 40bp. Implied vol on that basis was 30%-37.6% with a 97% bond floor.

There was no pre-sounding ahead of launch, a rarity at present, in part because leads were comfortable there would be heavy demand, but also because Worldline published first-half numbers on Thursday morning.

By midday, guidance had been narrowed to 106.3%-107.5% issue price and 57.5%-60% premium, both covered within. Just over an hour later, investors were advised that orders not at mids, with a premium of 57.5% and 106.3% issue price, risked missing out.

Pricing was set at 106.3% for a yield-to-maturity of negative 1.22%. The reference price was €75.8343, set from the VWAP from launch to pricing, and the premium was 57.5% for a €119.44 conversion price.

Hedge funds provided early momentum, with a final book giving a good blend of long-only and hedge funds, including a number operating on a long basis, and there were some sizeable orders in the book.

Worldline shares closed up 4.11% at €77.60 for a €14.18bn market cap. On Friday afternoon, they were trading at €74.16.

Barclays, *BNP Paribas*, *JP Morgan* and *Natixis* were joint global coordinators, with *Commerzbank*, *Credit Agricole CIB*, *Goldman Sachs*, *Morgan Stanley*, *Societe Generale* and *UniCredit* added as joint bookrunners on pricing.

SOUTH AFRICA

BRAIT CB BUYBACK FLOPS

South African investment firm **BRAIT** had a less-than-stellar response on Thursday to its tender to buy back its outstanding 2.75% 2020 convertible bonds that mature in September.

There was £141m outstanding from the original £350m, but only £8.5m was tendered.

Brait had offered to pay 99%, plus accrued interest of £1,001.36 per £100,000 of principal. The bonds had been bid at 95-97 through July.

Bondholders appeared happy to hold to maturity in eight weeks, with just 6% tendered, which will be cancelled, leaving £132.5m outstanding.

Goldman Sachs was dealer manager for the tender, which closed at 4pm on Thursday.

SWITZERLAND

BASILEA SETS REFERENCE FOR SFR97m 2027 CBs

BASILEA PHARMACEUTICA wrapped up its issue of SFr97m (US\$103m) seven-year convertible bonds on Monday night following a delta placing that set the reference price, capping a process that began with bookbuilding in June.

It ends a process to term out debt that began with a placing of SFr125m of seven-year notes, subject to clawback depending on the success of a tender for outstanding 2022s.

A VWAP-based reference price is more common on convertibles but the delta option was felt more suitable in this case. The delta placing had to be the final step in the process as the size of the issue depended on the outcome of the tender, with leads using the delay to line up investors to buy the delta.

Goldman Sachs and *UBS* managed all parts of the process.

The delta priced at SFr50, a 5.8% discount to Monday's close of SFr53.10, and 5.1% to the close before the initial CB placing.

At the time, SFr125m of 2027 CBs were provisionally allocated. The SFr90m-SFr110m tender for the SFr200m outstanding of 2022 CBs secured just SFr47m. A banker said heavy retail ownership had not helped efforts to secure the bonds, which pay a 2.75% coupon, and where Basilea was offering 100.5% of par, plus accrued interest. The 2022s were bid at 100.1% on Tuesday afternoon.

Basilea has a SFr250m cap on outstanding CBs so the new issue was reduced to SFr97m. The 2027s come with a 3.25% coupon and a 25% premium for a SFr62.50 conversion price. The new CBs were trading at par on Tuesday afternoon.

Basilea Pharmaceutica shares closed down 8.8% at SFr48.42 on Tuesday.

UNITED STATES

LENDINGTREE CATCHES FIRE ON US\$500m CB REFI

Online lending marketplace **LENDINGTREE** last week pruned its capital structure by using proceeds from a new US\$500m CB to repurchase an existing CB that was deep in the money.

Highlighting accretion from the refinancing, LendingTree shares rose 4.7% to US\$354.76 over the one-day marketing period on Tuesday. That bullish move also reflected the cross-currents of unwinding

hedges on the old, high-delta CB and setting hedges on the new, lower-delta CB.

“What you’re seeing [today] in the stock is net-delta dynamics,” said one banker involved in the underwriting. “Investors are buying stock to unwind hedges from a security with a much higher delta and rolling into a new security with a lower delta.

“The company is effectively repurchasing the stock underlying the old bonds and recycling that capital at a much higher strike.”

From an execution perspective, these CB refinancings are fairly straightforward because there is a captive base of existing holders, though there are complexities associated with hedging agreements that are handled through swaps.

Bank of America, Goldman Sachs and SunTrust Robinson Humphrey set pricing on the new CB at a 0.5% coupon and 30% conversion premium, the midpoint of 0.25%–0.75% and 27.5%–32.5% price talk, for a conversion price of US\$461.19.

LendingTree spent roughly US\$55m on a call spread to offset dilution from the new CB to prices up to US\$709.52, a 100% premium to reference.

Simultaneously, the company spent US\$234m to repurchase US\$130.3m principal of its 0.625% CB due 2022, or 180 of par, taking out 625,000 shares in the process. Those notes, of which US\$170m principal is outstanding, are convertible at prices above US\$207.63.

LendingTree only had 14.6m shares outstanding at December 31, including the in-the-money portion of the 0.625s at the time, so the refinancing is impactful to earnings.

A week earlier, LendingTree pre-announced second-quarter results of adjusted Ebitda and revenues of US\$28m–\$32m and US\$182m–\$186m, versus prior guidance of US\$12m–\$18m and US\$160m–\$175m and topping the US\$17m and US\$170m consensus, according to Refinitiv data.

“We’re thrilled to announce such a positive outcome on the quarter in light of the many challenges we’re all facing,” said LendingTree CFO JD Moriarty.

Upticks in mortgage refinancings and product innovations contributed to the strong results, added Moriarty, BofA’s former head of ECM.

LendingTree plans to provide third-quarter guidance when it reports second-quarter results, likely this week, after previously pulling full-year guidance.

» LIMELIGHT GOES OVERNIGHT WITH US\$110m CB

LIMELIGHT NETWORKS, a digital content delivery platform, wrapped up a US\$110m five-year convertible bond on Thursday morning that was publicly marketed overnight.

Goldman Sachs, as sole books, confidentially marketed the offering earlier on Wednesday ahead of pricing at 3.5%, up

27.5%, the best ends for investors from 3%–3.5% and 27.5%–32.5% talk marketed overnight.

The bank, which helped take the company public back in 2007, was able to bump the offering size from US\$100m to US\$110m.

The wide-end pricing partially reflected market risk being absorbed by investors.

In Thursday trading, Limelight shares fell 7% to US\$6.20, in-line with what was expected.

Limelight spent roughly US\$15m of the proceeds raised on a call spread to offset dilution to share prices up to US\$13.38, a 100% premium to reference. The bonds convert at US\$8.53.

Limelight, while less well known than other digital content delivery companies like Akamai Technologies, Fastly and Cloudflare, is benefiting operationally from the proliferation of streaming services and remote viewing of sporting events – it helped support the launches of HBO Max in May and NBC Universal’s Peacock last week.

In the second quarter, the company grew revenue by 27.7% year-on-year to US\$58.6m, just above the US\$56.7m analyst consensus and the second-highest quarterly revenue in its history, according to Refinitiv data.

Limelight management bumped full-year Ebitda and revenue guidance to US\$28m–\$35m and US\$230m–\$240m, from US\$25m–\$35m and US\$225m–\$235m previously, offset by US\$25m–\$30m of capex planned.

GLOBAL CONVERTIBLE OFFERINGS – EMEA

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 JP Morgan	18	3,460.38	20.6
2 Goldman Sachs	12	1,623.69	9.7
3 Morgan Stanley	6	1,325.00	7.9
4 HSBC	8	1,194.17	7.1
5 Barclays	5	1,084.98	6.5
6 BNP Paribas	8	1,067.26	6.3
7 UniCredit	5	929.51	5.5
8 Credit Agricole	6	897.57	5.3
9 Citigroup	4	816.35	4.9
10 UBS	6	719.45	4.3
Total	35	16,811.91	

Including exchangeables.

Source: Refinitiv

SDC code: C09d

ALL INTERNATIONAL ASIAN CONVERTIBLES

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Goldman Sachs	5	1,512.03	14.9
2 Morgan Stanley	8	1,422.96	14.0
3 UBS	7	1,370.77	13.5
4 Citigroup	6	1,127.81	11.1
5 JP Morgan	6	965.78	9.5
6 Bank of America	3	818.14	8.0
7 Credit Suisse	6	609.48	6.0
8 HSBC	4	382.03	3.8
9 Nomura	2	280.93	2.8
10 CICC	3	225.00	2.2
Total	27	10,178.30	

Including exchangeables.

Source: Refinitiv

SDC code: M10

ALL INTERNATIONAL ASIAN CONVERTIBLES

(EXCLUDING JAPAN)

BOOKRUNNERS: 1/1/2020 TO DATE

Managing bank or group	No of issues	Total US\$(m)	Share (%)
1 Goldman Sachs	5	1,512.03	16.7
2 Morgan Stanley	8	1,422.96	15.7
3 UBS	7	1,370.77	15.1
4 Citigroup	6	1,127.81	12.5
5 JP Morgan	6	965.78	10.7
6 Bank of America	2	666.18	7.4
7 Credit Suisse	4	515.00	5.7
8 HSBC	4	382.03	4.2
9 CICC	3	225.00	2.5
10 BNP Paribas	1	200.00	2.2
Total	21	9,054.33	

Including exchangeables.

Source: Refinitiv

SDC code: M11

EQUITY-LINKED DEALS WEEK ENDING: 24/7/2020

Issuer	Country	Date	Amount	Greenshoe	Tenor	Coupon/YTM %	Premium (%)	Bookrunner(s)
Worldline	France	23/07/2020	€600m	—	5yr	0/-1.22	57.5	Barclays, BNP Paribas, JP Morgan, Morgan Stanley
LendingTree	US	21/07/2020	US\$500.0	US\$75.00	5yr	0.50	30	Bank of America, Goldman Sachs, SunTrust Robinson Humphrey
Limelight Networks	US	22/07/2020	US\$110.0	US\$15.00	5yr	4	27.50	Goldman Sachs

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WHERE IS THE NEXT...DUBAI, SHANGHAI, SINGAPORE?



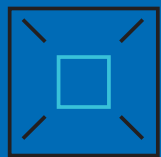
Landscapes and cityscapes have transformed over the years with the development of major infrastructure projects across many countries. The OECD estimates that meeting the UN Sustainable Development Goals (SDGs) will require ~\$6.3T in annual investment immediately, increasing to ~\$6.9T to meet the Paris Agreement goals.

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